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But the strongest pressure was on AT&T, the largest US telecoms group, to react to the merger of its main domestic and international rivals.

Investment bankers said that the MCI move put pressure on BT to increase the price premium it was paying.

Observer, Page 15; Lex, Page 16; The FT/MCI deal, Page 32

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Yeltsin's health check, Page 2

**Sweden "should not join",
Page 3; Observer, Page 15**

est shareholder, is still trying to mount a hostile bid for the company despite opposition from the German cartel office.

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STOCK MARKET INDICES		% GOLD			
New York Composite		New York Composite			
Dow Jones Ind. A. 5,040.93	(+18.00)	DOW - 5379.6	(\$78.25)		
NASDAQ Composite	1,221.56	London:			
Euro Stoxx 50		Gold \$378.95	\$77.95/oz		
CAC40	2,142.15				
FTSE 100	2,426.36				
FTSE 100	1,028.1				
Nikkei	closed				
US LUMBERPRICE RATES		% DOLLAR			
3-month Futures	5.1%	New York Composite			
5-year Treas. Bids Yld.	5.142%	DM - 1,872.5			
Long Bond	5.814	FF - 571.55			
	8.6524	SP - 1,270.05			
		Y - 113.87			
% OTHER RATES		London:			
UK 3-6 month Interbank	6.1%	S - 1,849.9	(1,857.5)		
10 yr Gilt	98.2	DM - 1,513.2	(5,165)		
France 10 yr DAT	108.75	FF - 511.94	(5,128)		
Germany 10 yr Bond	101.54	SP - 1,289.3	(1,271.5)		
Japan 10 yr JGB	closed	Y - 113.79	(113.55)		
		Tokyo close	Y 114.1		
% NORTH SEA OIL (Argus)		% STEERING			
Brent	\$22.08	DM - 2,492	(2,483.3)		
Atlantic					
UK 275	Gibraltar	12.75	Libya 10	18.00	OTIS-50
UK 200	East Coast	DM40	Lib	17.75	Gambia
Denk 300	Hong Kong	DM300	Malta	Lib70	Sri Lanka
Belgium	SP75	Hungary	DM120	Morocco	SP70
Cyprus	Q2-30	Israel	10350	Spain	SP70
Greece	DM20	India	12600	Norway	DM2200
Spain	DM20	Italy	12600	Q1-75	Switz
China	£25.00	Yield	15000	Peru	SP-67
Poland	SP-20	Japan	101.75	Portugal	DM2000
Romania	RM1000	Denmark	101.75	Yield	120000

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NEWS: EUROPE

Governing political parties suffer setbacks in eastern European voting



Up in arms: Romania's Emil Constantinescu (left) and Bulgaria's Petar Stoyanov display their elation over their successes in elections at the weekend



First round has Iliescu on ropes

By Virginia Marsh
in Bucharest

Mr Ion Iliescu, the former senior Communist who has led Romania since 1989, was yesterday battling for his political life. Partial results gave him a slender lead in the first round of voting for the presidency and showed his party had been roundly defeated in parliamentary polls also held on Sunday.

With about half the votes counted, the opposition Democratic Convention, which favours faster economic reform, had won nearly 31 per cent of the vote, ahead of Mr Iliescu's Party of Social Democracy (PDSR) on about 23 per cent. The Convention said it would begin talks on forming a coalition with Mr Petre Roman's centrist Social Democratic Union (USD) as soon as final results were known, probably today.

The USD was in third position yesterday with 13 per cent, slightly below expectations. But Mr Roman, Romania's reformist first prime minister in the post-Communist era, won 21 per cent in the presidential race, behind the Convention's Mr Emil Constantinescu, an academic, on 28 per cent, and Mr Iliescu on 33 per cent. Mr Roman's endorsement will be critical to Mr Constantinescu's chances of beating Mr Iliescu in a two-way runoff on November 17.

It is expected that the party representing Romania's 1.7m-strong ethnic Hungarian minority, which was fourth with 6 per cent, will also support Mr Constantinescu and an opposition coalition. It would be the country's first centre-right government in half a century.

Although the presidency has limited constitutional powers, Mr Iliescu - a close

side of Nicolae Ceausescu before breaking with the dictator in the 1970s - has brought considerable weight to the post. His removal would greatly consolidate the opposition's grip on power.

Analysts said the opposition had attracted young voters, urban dwellers and entrepreneurs and, critically, had increased its support from workers disillusioned with the governing party. Although nominally a left-of-centre party, the PDSR in government has fostered a corrupt business elite and failed to fulfil promises to improve welfare and low living standards.

However, the party, which favoured its more technocratic wing in selecting parliamentary candidates, is likely to be a formidable opponent for the relatively inexperienced opposition politicians.

Opposition parties should hold more than 55 per cent of parliament once the votes of groups not reaching the required 3 per cent threshold are redistributed. However, the PDSR will remain the largest single party in parliament. The Convention, which narrowly lost the 1992 election to the PDSR, is a coalition of some 15 centre-right, liberal and Green groups.

Two of the small extreme neo-Communist or nationalist parties that supported the PDSR's minority government appeared unlikely to re-enter parliament. The governing party's former coalition partner, the anti-Hungarian Romanian National Unity party, saw its vote halved to less than 4 per cent. But the most extreme parliamentary party, the anti-Semitic Great Romania, increased its vote to about 4.5 per cent from 3 per cent in 1992.

Bulgarians choose reformer as president

By Theodor Troev in Sofia
and Agencies

Mr Petar Stoyanov, a pro-reform lawyer, was yesterday confirmed as victor in Bulgaria's presidential election, sweeping aside his Socialist opponent, whose party forms the government.

With most votes counted, official preliminary results

gave Mr Stoyanov, of the anti-Communist Union of Democratic Forces, 59.9 per cent of the vote to 40.1 per cent for Mr Ivan Marazov, the Socialist culture minister.

The president is largely a ceremonial figure with limited powers. But Mr Zhan Videnov, the Socialist prime minister, has promised to

take note of the vote - a supreme council meeting of the governing Socialists will be called soon and Mr Videnov may call for a vote of confidence in his leadership.

Mr Stoyanov won overwhelming support in the cities, including more than 70 per cent of the vote in the capital Sofia. Final results

are expected today.

In the first round of voting a week ago, Mr Stoyanov took 43.9 per cent against Mr Marazov's 27 per cent.

Mr George Ganchev, of the Bulgarian Business Bloc, which is emerging as a third force in politics, took 22 per cent, and refused to endorse either candidate in

Sunday's run-off.

Sunday's turnout - 61 per cent, the lowest in any election in Bulgaria's seven years of democracy - is regarded as a sign of increasing disillusion among voters over politicians' ability to solve the country's economic crisis.

An international Monetary Fund mission is visiting the country to decide whether to grant Bulgaria \$115m in fresh credit. If it refuses, the country could default on its \$10bn foreign debt.

The Bulgarian lev fell to 246-247 to the dollar on the interbank market on Monday morning from 244-245 at Friday's close on rumours the funds might be denied.

Yugoslav opposition claims local poll gains

By Laura Silber in Belgrade

Serbian President Slobodan Milosevic's ruling Socialists and their Communist allies were yesterday coasting to a comfortable victory in voting for Yugoslavia's federal assembly. However, the opposition coalition was claiming huge gains in municipal elections, according to initial returns.

If this trend is reflected in the final results, the Socialists could even lose their grip on Serbian cities, among them the capital, Belgrade.

On Sunday night the Socialists

were quick to claim "overwhelming victory" for their leftwing coalition in elections in Serbia and Montenegro - sole remaining partner in the Yugoslav federation - for the joint federal parliament, municipal councils, and Montenegro's republican legislature.

The Socialists, who merged with the Communist Yugoslav United Left (JUL) of Mrs Mira Markovic, Mr Milosevic's wife, had won two-thirds of the 108 seats allocated to Serbia in the federal assembly, according to a JUL spokesman.

The state electoral commission

said that, with about half the vote counted, the leftwing coalition was leading with 46 per cent, the four-party opposition coalition, Zajedno (Together), had 23.9 per cent, and the ultra-nationalist Serbian Radicals were third with 18.5 per cent.

At the municipal level, however, opposition parties claimed to have enough votes to force run-offs with the left's candidates in several Serbian cities in a second round of polling set to take place in two weeks' time. In Belgrade, the opposition Democratic party said, there would be a run-off for 85 of the 110 seats on the council.

Opposition leaders expressed the

fear that their chances in the run-off campaigns might be jeopardised by hostile coverage in the state-run media, which has virtually ignored their coalition so far except to attack them personally.

The Socialists have dismissed charges of ballot rigging and an unfair campaign. Only a handful of foreign observers oversaw the polling.

However, opposition objections were reinforced yesterday by a statement from the US embassy in Belgrade. This said that its observers had noted shortcomings in voter rolls, lax security, and

restrictions on opposition party representatives and monitors in election commissions and polling stations.

Mr Milosevic was not a candidate in Sunday's contest, but he must retain a majority in the federal parliament to push through the constitutional changes he wants. He is likely to seek more power for the post of Yugoslavia's federal president, which is currently ceremonial, before taking the position himself.

His second term as Serbian president expires next year. Under the law he cannot seek a third term.

Surprise fall in German production

By Peter Norman in Bonn

German industrial output fell unexpectedly in September, reflecting a sharp decline in production of durable goods, and denting hopes of strong third-quarter growth.

Although the economics ministry said it expected the figures to be revised upward later, the news coincided with a forecast from the Munich-based Ifo economic research institute of sharply lower profits for manufacturing industry this year, and a downward revision of industrial production in August.

The ministry reported that overall industrial output declined by a seasonally adjusted 1.5 per cent in September compared with August, confounding economists' expectations of a 0.5 per cent rise. At the same time, it revised August's production growth down from 1 per cent to zero.

As a result, output in August and September fell 0.5 per cent compared with June and July, and was 0.8 per cent lower than in August and September last year.

The September output fell reflected a 10.5 per cent decline, seasonally adjusted, in western Germany's output of durable goods as well as significant falls in the production of investment goods and energy. The ministry offered no explanation for the slump in durables, but London analysts noted that it came after four months of strong growth in the sector and might have reflected strikes over limits on sick pay which affected the car industry at the end of the month.

Yugoslav's news about industry was not all bad. Ifo reported a third quarter improvement in the average capacity utilisation of western German manufacturers - to 83 per cent in September from 82.2 per cent in June and 81.8 per cent in March.

However, capacity use was well below last year's levels. Orders in hand slipped to 2.6 months in September from 2.7 per cent at the end of each of the preceding two quarters. Moreover, Ifo said its recent surveys on western German industry indicated that the net earnings before tax of manufacturers employing more than 20 people would fall to an average 0.7 per cent of turnover this year from 1.8 per cent in 1995.

That would bring profits to their lowest level since the recession year of 1993 when Ifo estimated they averaged just 0.1 per cent of turnover.

Georgian honey keeps bear sweet

Shevardnadze talks to Bruce Clark in Tbilisi about his relations with Russia

There can hardly be a more sophisticated observer of Russia than Georgia's President Eduard Shevardnadze who, as Soviet foreign minister, helped bring down the Berlin Wall and more recently has fought his own country's corner in its fluctuating relations with Moscow.

In recent weeks he has pleased Georgian nationalists by adopting a somewhat stiffer tone in his public comments about Russia. For example, he has threatened to end Russia's military presence in Georgia unless the status of the breakaway region of Abkhazia, where Georgia lost control in a bloody war in 1993, is resolved.

Some Georgians have argued that the power struggle raging in Russia could present the country with an opportunity to assert its independence. But others point out that Georgia's bitter defeat by Abkhazian separatists, backed by the Russian military, came at a time of internal power struggles in Russia.

In an interview, Mr Shevardnadze made clear that he continued to feel his country's relations with Russia needed handling very carefully. He intended to resist pressure from his compatriots to provoke Moscow gratuitously or take advantage of the uncertainty there.

"An unstable Russia is intolerable for Russia, so much so that Russia's stability is no less important to us than stability within our own country," he said. He used the mildest of language to present Georgia's recent call for the withdrawal of Russia's border troops from Poti. This Black Sea port could become vitally important for both oil and dry cargo as Europe's trade with central Asia gathers pace.

"There is no legal basis for those troops' presence because they are not covered by our agreement with Moscow on border security," he said. "I wouldn't say they pose any special problem to us, but we can guard our own border now."

He stressed that he wanted "objective discussions, without being too emotional" with Russia about the issue. Mr Shevardnadze was equally lenient in his comments on General Igor Rodionov, Russia's defence minister, who in April 1995 oversaw the violent break up of a demonstration in Tbilisi.

"I view Rodionov as a military man, an honest professional, and I'm convinced it



Passage of arms: Georgia's President Eduard Shevardnadze pictured during a visit to the UK last year.

was not him who decided to use force, though he did receive an order and fulfilled it with very grave consequences," he said.

The Turkish government recently claimed Mr Shevardnadze as a strong ally of its proposal to build a giant oil pipeline, costing up to \$3bn, to link the Caspian Sea with Ceyhan in southern Turkey. The US-backed idea is viewed with great suspicion by Russia.

The same message - that Russia will in no circumstances be excluded - informs his comments on the emerging "Eurasian corridor" trade route linking central Asia, Trans Caucasia and points west which has won strong backing from the European Union.

"This corridor would not imply any changes to the trade routes which pass through Russia," he said, adding that Georgia was very keen to reactivate the trade on its northern border which had been reduced sharply by war and Russian customs duties.

"Some people say that because Georgia seeks integration with Europe, this will prevent Georgia's integration with Russia. But we favour integration with Russia, too," he said. "Russia's integration with Europe is more advanced than ours; we are just following suit."

Mr Shevardnadze is clearly holding out against the temptation to taunt the Russian bear, and he urges the west to do likewise. For

example, he said Nato should seek an understanding with Russia before enlarging eastwards.

He is equally cautious about the biggest challenge on his northern border: Chechnya, where he broadly backed Moscow's military effort - and has been left somewhat exposed by Moscow's peace deal with the separatist rebels.

"If Russia's decisions contribute to peace in one part of the Caucasus, that will be a good start," Mr Shevardnadze said. Whatever the clouds on the horizon, he still believed that "the sun of peace is rising over the Caucasus, albeit slowly".

The metaphor recalled one of the most extravagantly pro-Russian pronouncements Mr Shevardnadze made during the Soviet era when he was the republic's Communist boss: "In Georgia, the sun rises in the north."

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Web-site monitors Yeltsin's health

By Chrystia Freeland
in Moscow

An Internet web-site, a prayer from the Orthodox Patriarch, and the creation of a special hospital-based press centre were among the preparations yesterday which suggested that President Boris Yeltsin's heart bypass operation could be imminent.

His doctors, including Dr Michael DeBakey, the pioneering US heart surgeon, met yesterday. The Kremlin said they had decided the Russian leader was in "optimal" condition for surgery and the operation could take place in the next few days.

The presidential administration is setting up a press centre at the hospital, in a leafy western Moscow suburb, and has promised an announcement after the operation begins and perhaps in the middle of what is likely to be a long procedure.

Dr DeBakey, a globe-trotting octogenarian whose former patients have included Yugoslavia's Joseph Tito and the Duke of Windsor, has set up an Internet web-site - www.debakay.com - which Kremlin-watchers can visit for the latest Yeltsin health bulletin.

Even the relics of the Communist era appear to be pointing to an operation this week. Thursday and Friday will be national holidays in Russia as the country marks the 75th anniversary of the Bolshevik revolution.

Analysts think the long weekend could provide a convenient surgery date for the Kremlin because Russia's markets will be closed and its newspapers will not be published.

An extreme nationalist and a Communist have defeated two pro-Yeltsin incumbents in elections to regional governorships. Mr Yevgeny Mikhailov, of Mr Vladimir Zhirinovskiy's ultra-nationalist Liberal Democratic party, won in the northwestern Pskov region, which borders Estonia. Russian agencies said Mr Valentin Tsvetkov, candidate of a leftwing coalition of Communists and their allies, won in Magadan, a north-eastern province.

Italy's graft-fighter suffers smear campaign

By Robert Graham in Rome

Mr Antonio Di Pietro is under threat as public works minister in the centre-left government because of a smear campaign stemming from his former role as Italy's top anti-corruption magistrate.

In less than a week Mr Di Pietro has had to make three statements denying improper behaviour while investigating corruption during the early 1990s. He has also initiated court proceedings to discover the source of defamatory information being leaked to the press.

More seriously, he has openly

attacked some in the Guardia di Finanza, the financial police, for waging a vendetta against him. This has led to the curious spectacle of Mr Vincenzo Visco, the finance minister, defending the Guardia di Finanza, for whom he is responsible, from attacks of a ministerial colleague.

The institutional aspects of this crisis were underlined yesterday by Mr Francesco D'Onofrio, a senior opposition senator, who observed: "The government cannot go much longer pretending to run and trust the Guardia di Finanza and have a minister who mani-

festly does not trust them - at least Di Pietro must say he does not trust individuals."

Mr Di Pietro is one of the most popular figures in Italy, having set in train the process which discredited a corrupt politico-economic system. He was brought into the centre-left government in May as an independent. Since he resigned as a magistrate in December 1994, he has had to contend with well-orchestrated smear campaigns, all of which he has shaken off. A Brescia court is currently trying Mr Cesare Previti, the defence minister in the 1994 government of Mr

Silvio Berlusconi, for allegedly blackmailing Mr Di Pietro to resign as a magistrate.

Since September further corruption allegations have been investigated by magistrates in the port city of La Spezia, reportedly on evidence from the Gico, a special anti-Mafia unit of the Guardia di Finanza, based in Florence.

This investigation has led to the arrest of Mr Lorenzo Nacci, the powerful head of the state railways, and Mr Pierfrancesco Pacini Battaglia, a shadowy financial intermediary already caught up in at least one corruption scandal

investigated by Mr Di Pietro in Milan.

In highly selective leaks of conversations, tapped by the Guardia di Finanza, Mr Pacini Battaglia is alleged to infer he concluded a deal with the Milan magistrates to let him off lightly.

Several commentators have suggested this anti-Di Pietro campaign has been orchestrated by members of the Guardia di Finanza who have been brought to justice by anti-corruption magistrates. Mr Di Pietro has hinted at this; the Guardia di Finanza has repeatedly issued denials.

Sweden urged to stay out at start of Emu

Lawyers' warning on euro

By Graham Bowley, Economics Staff

The introduction of the single European currency will have far-reaching implications for financial markets and for regulators, Mr Colin Bamford, chief executive of Britain's Financial Law panel, said yesterday.

Speculation between national currencies taking part in European monetary union would be impossible if exchange rates were locked as scheduled in 1999 since national currencies would in effect disappear, he said.

The euro, the proposed European single currency, would in effect be the only currency in the Euro area. National notes and coins would continue to exist but only as denominations of the euro.

Everyday retail transactions would involve national notes and coins but wholesale financial markets would use the euro. The FLP said this was an important topic, which had so far attracted little attention.

By Hugh Carnegie in Stockholm

Sweden should not join European monetary union at its planned start in 1999, an independent study commissioned by the Social Democratic government recommended yesterday.

Our overall judgment of the economic and political arguments is that the factors which argue against Swedish participation in the first round in 1999 are stronger than those which argue for participation," the

commission of prominent academics declared.

The 450-page report strengthened the judgment already widely made in the financial markets that Sweden will stay out of economic and monetary union at least initially, mainly because of the strong weight of public opinion against both the European Union and the single currency.

The Swedish government itself has said that a postponement is possible when parliament takes a

decision in a year's time.

Mr Eric Asbrink, the finance minister, welcomed the commission's "thorough analysis" and said it provided a good basis for a full public debate on the issue.

But in a sign that the government may now be concerned that the argument against early Swedish participation has gone too far, he pointed out that the report's conclusions were the personal opinions of the commission's eight members. "Clearly it is still

a possible scenario that Sweden will join Emu from the planned start," he said.

All but one member of the commission, chaired by Professor Lars Calmfors, a leading economist, favoured Emu membership at a later - unspecified - date.

The panel said that the political advantages of membership argued for early entry - despite doubts about democratic controls over the projected European central bank - because Sweden risked losing influence in the European Union if it stayed

on the sidelines.

But the commission was united in concluding that joining Emu in 1999 would be too risky for the Swedish economy, principally because of record unemployment and the continued weakness of the public finances.

Prof Calmfors said that with unemployment running at more than 12 per cent of the workforce, Sweden needed to retain the freedom to use an independent monetary and currency policy as "insurance" in case

it was hit by another jump in joblessness. He said the country ought to halve unemployment before joining Emu.

He said that if production fell and unemployment rose, it was politically implausible that Sweden could control the resulting crisis through wage flexibility or cuts in employer contributions - which would be the key adjustment mechanisms once monetary policy was fixed and strict Emu limits were imposed on the budget deficit.

With Sweden's public finances only now emerging from deep deficits, there was little room for increasing already high taxes or for further cuts in public spending beyond the tough measures taken in the past two years.

The commission said more time was needed for a debate in Sweden on the merits of joining Emu - and added that the costs of staying out would be reduced by the likelihood that several other EU members would also not join in 1999.

Fears grow of Emu-induced flight to Swiss franc

By William Hall in Zurich

Switzerland should be prepared to adjust monetary policy to stem any sudden inflows into the Swiss franc in the run-up to the planned start of the single European currency in 1999, according to a study commissioned by the Swiss economics ministry.

This could include softening its tough anti-inflationary monetary targets and adopting an informal exchange rate target.

Any sudden strengthening in the Swiss franc could be

best handled by adjusting Swiss monetary policy rather than pegging the Swiss franc to the euro or the D-Mark, says the study, set up with the support of the Swiss National Bank.

It said the SNB should continue to balance its target of keeping money supply within a medium-term target range, with a more liberal monetary policy if money started pouring into the Swiss franc.

The Swiss, whose economy has stagnated for the last five years, are increasingly concerned that uncertainties

over the development of European monetary union could cause speculative inflows into hard currencies, such as the Swiss franc, further delaying the country's long overdue economic recovery.

Yesterday's announcement that Swiss retail sales dropped 7.8 per cent in September, and 2.4 per cent in the third quarter, will increase fears that the recent strength of the Swiss franc is pushing the economy deeper into recession.

Mr Jean-Pascal Delamuraz, Switzerland's president and

economics minister, commissioned a panel of experts last February to look at how Switzerland might be affected by the move towards Emu.

The group concluded that the biggest danger for Switzerland would arise from an extreme crisis of confidence which threatened the price stability of the euro. Switzerland would not be able to isolate itself in these circumstances and would have to consider pegging the franc.

The report argues that "with the exception of this extreme development, which

is considered a low probability, it is possible to dampen external influences with an autonomous monetary policy." Nevertheless, Professor Bernd Schips, who headed the study group, said yesterday the threat of further inflows into the Swiss franc was a "serious threat" to the Swiss economy. He did not expect the economy to grow by more than 0.5 per cent in 1997 and 1998 and even this could be jeopardised if there was a further sharp appreciation of the Swiss franc.

The report goes further than recent Swiss National

Bank statements in acknowledging that the recent appreciation of the Swiss franc has damaged the economy. It says there are limits to the ability of the economy to adjust to a further rise in the Swiss currency.

The Swiss National Bank has been allowing money supply to grow well above its medium-term target for some time. However, the report's emphasis that inflation is no longer a problem suggests that the bank's representative on the committee might have had to bow to the majority opinion.



Delamuraz: asked experts to study Emu's impact

EUROPEAN NEWS DIGEST

Kohl fails to halt tax row

A call from Chancellor Helmut Kohl for responsible behaviour from all three governing parties yesterday failed to stem the row about tax policy in Germany's coalition. The Free Democrats insisted that the solidarity surcharge, which is added to tax bills to finance eastern Germany, is cut by 3 percentage points to 5.5 per cent at the beginning of 1998. Leaders of Mr Kohl's Christian Democratic Union rejected the idea, arguing that the decision about cutting the surcharge should be taken only when the government had a clear idea of Germany's financial position. Mr Kohl called on the FDP to cease its "threatening behaviour" and work loyally in the coalition. He said the government would move swiftly to plug gaps in the 1997 draft budget which are in prospect because of sluggish tax income and high unemployment. Like the FDP, the chancellor insisted that the budget would be corrected by spending cuts and not by tax increases or higher borrowing.

Peter Norman, Bonn

Armenian premier to quit

Armenia's prime minister yesterday announced his resignation following a protest vote against his tough reform programme. Mr Hrant Bagratian, in office since 1993, said he was resigning for personal reasons and wanted to write a book.

Mr Bagratian was popular among western investors and institutions for driving down inflation and reviving production. Armenia's GDP grew 6.9 per cent in 1995 and may grow by 5 per cent this year. But Mr Bagratian was unpopular at home for slashing social spending and cutting subsidies to loss-making industries, resulting in lower wages, high unemployment and impoverished health care and education.

An opposition candidate in September's presidential elections came close to unseating Mr Levon Ter-Petrosian by promising to raise social spending. Allegations of vote-rigging caused severe riots, followed by a military crackdown. Many analysts predicted that Mr Ter-Petrosian would sacrifice Mr Bagratian and raise spending to regain popularity. Mr Bagratian said in September that he would resign if the president backedtrack on reforms.

Sander Thomas, Albany

Chirac, Aznar offer Emu aid

The leaders of France and Spain opened their summit in Marseilles yesterday by giving moral support to each other's efforts to be in at the planned start of European monetary union in 1999. President Jacques Chirac expressed his appreciation for Spain's determination to join the single currency, as reflected in the Madrid government's draft budget for 1997. Mr Jose Aznar, Spain's prime minister, endorsed similar French efforts to reduce its public deficit sufficiently next year to qualify for monetary union. The annual summit took place under tight security after the main post office in Aix-en-Provence was bombed early yesterday by Corsican nationalists.

David Buchan, Paris



Postal workers inspect the damage at Aix-en-Provence

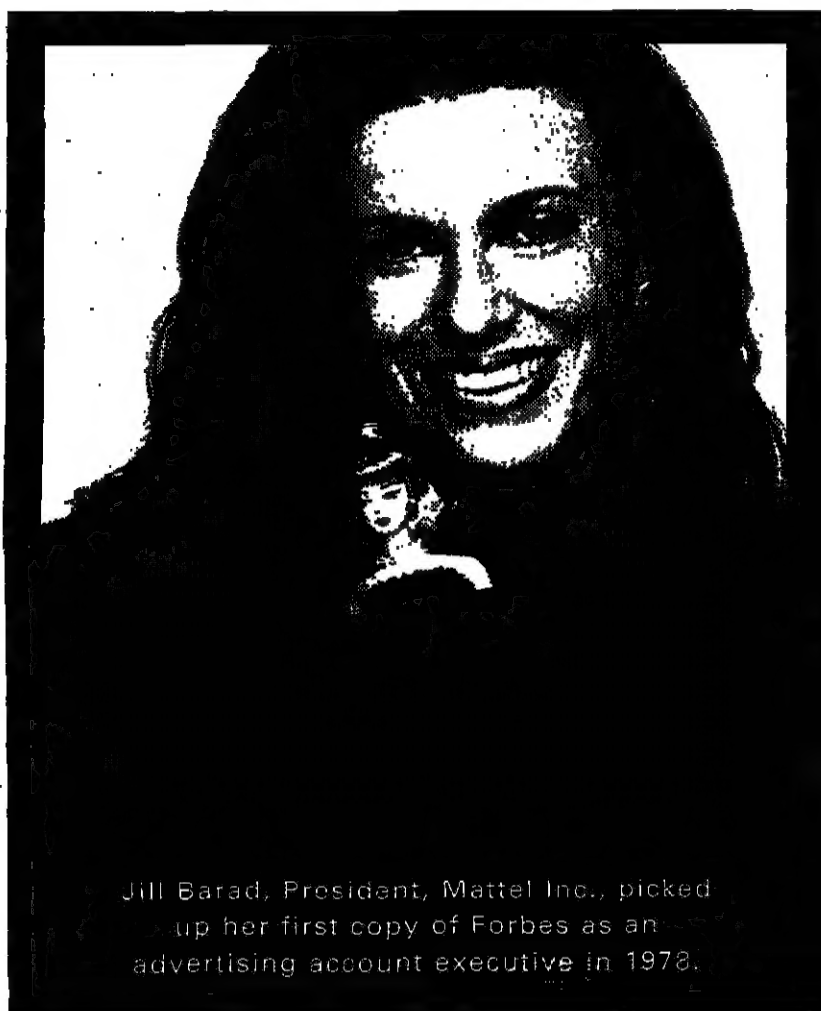
Italian traders in tax protest

Italy's vociferous shopkeepers and traders yesterday staged countrywide protests against tax increases proposed in the 1997 budget and threatened a tax boycott. The protest, organised by Confindustria, the shopkeepers' confederation, underlined the fierce opposition to tax increases from a powerful anti-tax lobby. Mr Sergio Billè, head of Confindustria, is staking out a political role as spokesman for the middle classes squeezed by higher taxes and fearful of a stagnant economy. The government, however, says small traders are among the worst tax evaders, often declaring lower earnings than their employees.

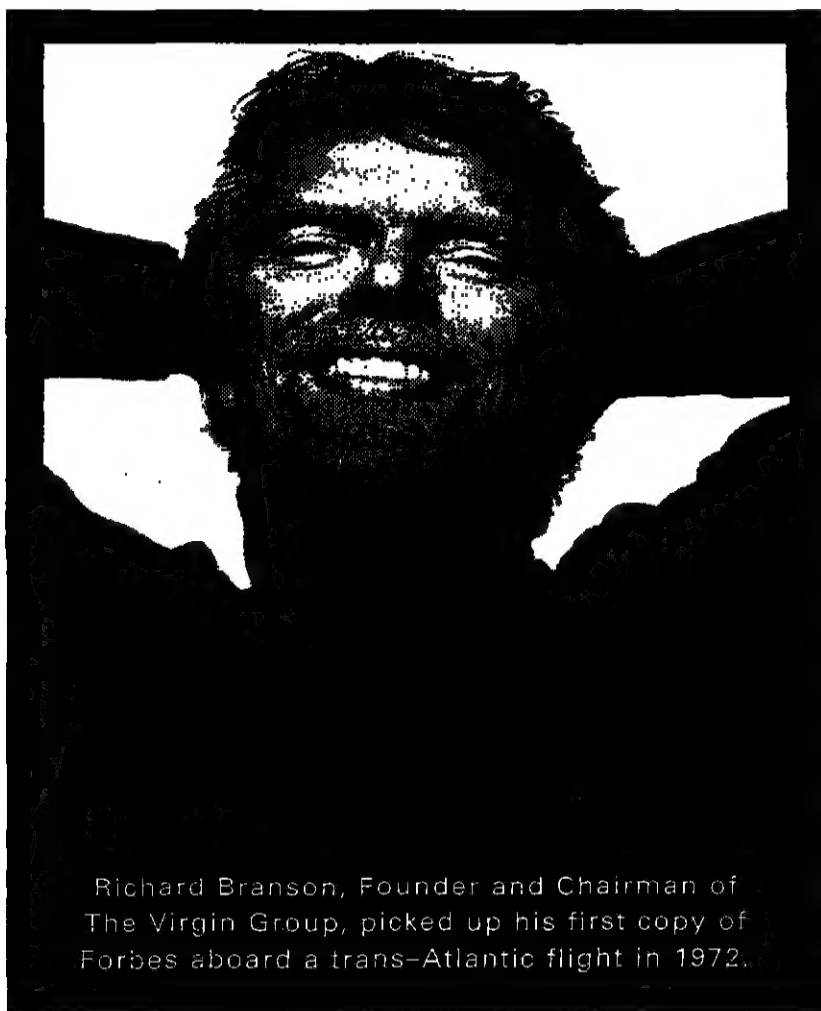
Robert Graham, Rome

Nicholas Colchester

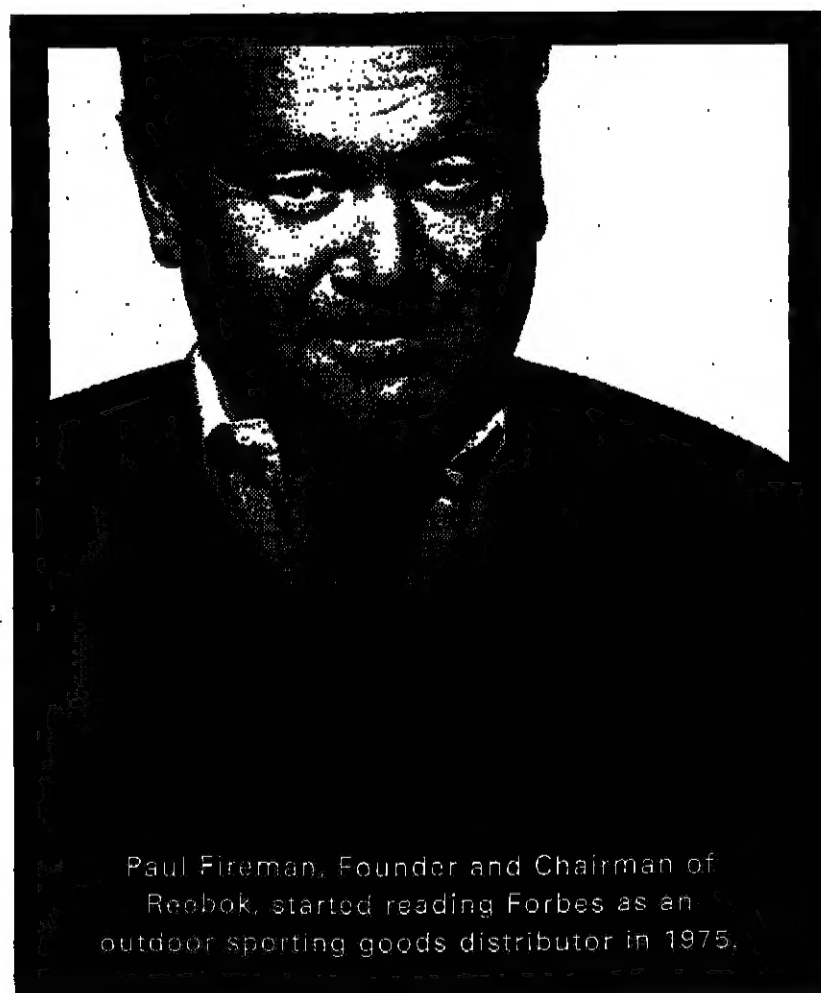
A memorial service for Nico Colchester, former FT foreign editor, will be held at Southwark Cathedral at 11.30 on Wednesday, November 13. It will be followed by a reception at the Financial Times.



Jill Barad, President, Mattel Inc., picked up her first copy of Forbes as an advertising account executive in 1978.



Richard Branson, Founder and Chairman of The Virgin Group, picked up his first copy of Forbes aboard a trans-Atlantic flight in 1972.



Paul Fireman, Founder and Chairman of Reebok, started reading Forbes as an outdoor sporting goods distributor in 1975.

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Forbes
CAPITALIST TOOL

US electorate looks to Clinton again, discounting sleaze and uncertain achievement

Cynical voters set to back Mr Average



US ELECTIONS
November 5

The middle-aged real estate broker had a sobering message for the President: "Don't mess up. You only have my vote by default." He might have been speaking for millions of those who will today cast their vote in favour of Mr Bill Clinton. If the polls are accurate, those millions will give Mr Clinton a hefty victory; but what they cannot give him, however large their numbers, is a strong mandate for a second term. For while it is easy to find Clinton voters in America, it is tougher to find Clinton enthusiasts.

Frank, the real estate broker, had given up his supper one night last week to sit in a room at a Philadelphia conference centre - along with other members of the disaffected American electorate - to talk about today's election. They were taking part in two "focus groups", small discussion groups of target consumers, the essential tool of the modern marketer.

It has become almost a truism to say that American politics is driven by such focus groups: that politicians never have a campaign thought - and certainly never utter one - without first testing it out before a jury of voters gathered together in a focus group.

Last week's focus group was paid for not by a politician, but by a philanthropist with a particular interest in campaign finance reform - the only hot topic of a tepid election campaign. Mr Jerome Kohlberg, first "K" of the leveraged buy-out specialist Kohlberg Kravis Roberts (KKR), was formerly a large contributor to Democratic candidates.



Bill Clinton: the kind of president Americans can tolerate, but not reverse

His aides say he now wants to spend "a few million figuring out how not to have political influence", by pushing for the reform of campaign finance laws which allow rich individuals and other "special interests" inordinate power over politicians. So Mr Kohlberg paid Mr Peter

Hart, a leading Democratic pollster, to probe voter views on money and politics, and to listen to the voices of America as the political cycle hit its four-year peak.

Mr Clinton would have found the session fascinating, though much of what was said would not

have pleased him. Asked to grade his first term as president, almost all 22 voters in the two groups rated him "average". No one said "great".

Mr Clinton emerged as the kind of President whom Americans can tolerate, but not reverse. Mr Hart probed for the gut

reactions which determine so many political choices, holding what he called a "lightning round" of snap responses.

The President attracted labels like "smart" and "sexy", almost all focused on image more than substance. Mr Hart tested the groups' reactions to other political leaders too: Mr Bob Dole was rated "dull" and "grumpy".

Mr Jack Kemp, his running mate, was largely unknown. The only figure who sparked any passion in the adjectives was Mrs Elizabeth Dole, the Republican candidate's wife.

Despite considerable mental effort, none of the participants seemed able to come up with anything Mr Clinton had actually achieved as President - though someone eventually made the dubious suggestion "peace in the Middle East".

Whether or not they planned to vote for him, no one would admit to having a high opinion of Mr Clinton's morals. "He would be sleazy, if he wasn't so polished," one man said. But most seemed to think character and morals irrelevant to voting behaviour.

"I don't think he has any real moral compass," said one group member, speaking for many. "And you're voting for him because..." Mr Hart enquired. "Because I have no alternative."

As Mr Hart pointed out afterward, Clinton voters in the group were simply making a practical calculation. "They were saying, 'we've invested four years in him. And we're prepared to roll the investment over.' Many clearly cherished high hopes from a second term - but were unable to cite concrete grounds for optimism."

On the subject of campaign finance reform, Mr Clinton could have taken some comfort in the replies. He has been accused of gross abuses, including accepting contributions from foreigners in exchange for favours. But most of

the focus group members had not registered these charges at all, and the rest did not care much. One could almost hear Mr Bob Dole, the Republican challenger, thundering from the sidelines: "Where's the outrage?"

Mr Hart showed the first group of 12 women voters a collage of front-page headlines screaming of campaign finance abuses. The ladies' faces looked blank. "Anyone really know what's going on?" Mr Hart asked. There was no reply.

"It went on 100 years ago and it's gonna go on 100 years from now, and if you don't believe that,

Image is vital. Clinton is rated smart and sexy, Dole, dull and grumpy

you're naive," one participant said, summing up the consensus.

They might have been sending a message: there is no mileage in Clinton campaign finance scandals. Outrage does not drive the largely cynical American electorate. A certain amount of scandal is already in the price.

Republican politicians may pursue Mr Clinton on a variety of ethical charges - from his involvement in the Whitewater financial scandal, to campaign finance transgressions, to abuse of confidential FBI files - if he wins a second term and they control Congress. But there is little sign that most voters feel so strongly. Americans set a low standard of ethics for their politicians. It takes a major abuse to breach the cynicism barrier.

Patti Waldmeir

Citizens push hot issues in front of voters

By Jurek Martin
in Washington

If today's US elections hold true to form, California will be watched not for whether President Bill Clinton or Mr Bob Dole carry the White House but for the result of three ballot propositions with potentially broad legal and public policy implications.

Elsewhere this is proving a vintage year for citizen initiatives. Voters will confront no fewer than 90 state-wide propositions, two-thirds of them in the West and 17 in Oregon alone.

They cover a full range of issues - from taxing churches (Colorado) and hunting wildlife (Colorado and Alaska) to the current hot topic, campaign finance reform (several states stretching from Maine on the Atlantic to Washington on the Pacific). Term limits for elected representatives are on 14 state ballots and legalised gambling on 10.

Of California's big three proposals, none has attracted more campaign finance on both sides than Proposition 211, designed to make it easier for shareholders to sue businesses for financial mismanagement. Company executives could be held personally liable in any judgment against them and punitive damages - not permitted in securities litigation in federal courts - would be subject to no ceilings.

Corporations are estimated to have poured over \$35m into the effort to defeat it, while its main sponsors, the trial lawyers, have also dug deep into their pockets. Recent polls find the electorate evenly divided on the issue.

Outside the state, more attention, though less money, has been devoted to Proposition 208, which would bar the government of California from involvement in affirmative action programmes. Mr Dole favours it, Mr Clinton opposes it and a Mervyn Field poll published yesterday had it passing by 53 to 38 per cent.

Proposition 215 calls for the legalisation of marijuana for use to relieve pain and nausea in patients suffering from cancer and AIDS. It has some support in the medical profession but conservative and religious lobbies are fighting against it.

A fair head of steam seems to be gathering behind campaign finance reform initiatives, with Maine leading the way. State voters will decide whether to provide additional public finance for candidates who agree to abide by spending ceilings and refuse special interest contributions to level the financial playing field against those who do not.

Dole and deodorant on the campaign trail

Well-fed but sleepless, Patti Waldmeir describes the hunting of the hack pack on the Republican candidate's jet

Journalists are simple people: they need electric power, a functioning telephone line, constant feeding, occasional alcohol - and where possible, something to write about. Sleep is optional. US politicians understand all that. They give them what they need.

As Mr Bob Dole and President Bill Clinton jetted into their home towns ahead of today's election, they travelled with them a retinue of sleep-deprived, over-fed, cellularly-linked reporters. A couple of hundred of them.

Mr Dole's media entourage is the more ragged, after being deprived of sleep for 96 hours, a record for candidate-induced campaign torture.

When he began his non-stop campaign marathon he took away their luggage and issued them with chic blue Dole bags filled with toothbrushes and deodorants, to help them combat campaign mouth and fight off home-stretch odour.

But at least he did not take away their power, their phone lines, or their food - although the normal high quality of Dole campaign meals deteriorated by the hour. For once, he provided a surfeit of what is known in the trade as "colour" - mid-night gaming pit-stops in Las Vegas, and trucking jaunts through rural Michigan. Something to write about, at least.

But where there is such familiarity - the hard core of Mr Dole's press retinue has travelled with him almost constantly for six months - contempt cannot be far away. Most of the press started out liking and respecting the candidate; but relations frayed, as he began to blame them for poor perceptions of his campaign.

Many expressed fury at his ill-planned, 96-hour blitz. His daily outbursts, usually against the New York Times, won him no friends in the nether compartments of his

aircraft, where the journalists were quartered.

In the last hours of his campaign Mr Dole took to visiting the back of the aircraft to prove that he was still alive. But before then, he had seldom ventured from his luxury first-class cabin, complete with separate exit. Elite members of the press corps were trained to leave by the rear end of his aircraft.

Many journalists were on a separate aircraft altogether and did not see the candidate much, except at large public events. A small, rotating media "pool" was allowed to accompany Mr Dole the rest of the time; they then spent hours trying to decipher the half-sentences of a candidate whose voice was pitched perfectly to imitate aircraft noise. Monosyllabic utterances, half-heard above the din, were then distributed as the daily "pool report".

One report conveyed the following intelligence from

Mr Dole's press secretary, Mr Nelson Warfield: Mr Dole "has his laundry needs well under control"; campaign stops are not - repeat not - being planned by "using a map and a dart"; and "the financial scandals of the Clinton administration will have more sequels than the Exorcist".

A later report provided details of the candidate's craving for a milkshake, and his wife's consumption of a hot dog, at a fast food stop in Sioux Falls, North Dakota.

For the privilege of gleaning these insights, media organisations spend thousands of dollars for a place on one of the aircraft - cash used to subsidise the candidate's own travel costs.

Once on board, the seating was strictly hierarchical. The Washington Post, New York Times, Los Angeles Times and usually the wire services sat at head table, a space in the middle of the aircraft with its own electric outlet. The rest fanned out

in waves from the power points, back to the cameramen, stuck next to the toilets in the tail.

Most journalists - astute observers that they are - recognised immediately that this was no ordinary aircraft. The air hostesses constantly ply passengers with food; the "fasten seat belt" signs come on normally at take-off, but no-one is ever asked to sit down; no disembodied voice warns sternly of the need to turn off cell-phones, so phone conversations go on throughout the flight. It is one of the few places in America where smoking is not a federal offence.

The hostesses did their best to serve up passable fast food in the final hours of the campaign. But the one thing they could not deliver was sleep. And after the longest, dreariest campaign in modern memory, the journalists - simple people that they are - in-mates that they are - can think of nothing else.



Dole hopes pundits are wrong - as they were with Truman

Argentina's army chief visits Britain

By David Pilling
in Buenos Aires

General Martín Balza, Argentina's army chief, yesterday began a three-day official visit to Britain, becoming the highest-level military official to be received in London since the 1982 Falklands war.

Gen Balza's arrival - which coincided with that of Mr Roque Fernández, economy minister - was considered "highly significant" by British military officials. They said such top-level contacts were an important part of normalising bilateral relations.

Full diplomatic links between the two countries were re-established in 1990, even though Buenos Aires maintains its sovereignty claim over the Falkland Islands.

Gen Balza, who was taken prisoner during the 1982 war, is expected to press for an end to a British arms embargo, particularly on spare parts for the Argentine navy. Both governments deny recent press claims that the embargo has been secretly relaxed.

"We are very sorry that Britain has not tackled the problem and that we still have an arms embargo on," said Mr Guido Di Tella, Argentina's foreign minister. Argentina has explicitly stated in its constitution that it would not press its claim to the Falklands by military means. "I don't think we pose any threat whatsoever," he said.

Mr Fernández, who arrived yesterday, took over the economy ministry in July from Mr Domingo Cavallo. Mr Fernández is heading a mission of more than 100 Argentine business leaders.

British investors will be keen to establish links with the new economy minister, whose last-minute cancellation of a trip to the UK and Europe last month drew criticism from some quarters.

Mr Fernández, whose trip to London is only his second international foray since taking office, arrived with a stamp of approval from the International Monetary Fund, which last week accepted new macro-economic targets set by his team.

Cavallo apologises to judge

Mr Domingo Cavallo, the former Argentine economy minister who is facing a series of facing court actions for his outspoken denunciations of official corruption, apologised to a Supreme Court judge yesterday for allegations against the judge, Reuter reports from Buenos Aires.

Mr Cavallo is abroad, but his lawyers filed a retraction, admitting he made the comments about Judge Augusto Belluscio "without personally checking the quality of the information I had and whether it was complete and accurate".

The case dates back to 1993, when Mr Cavallo called Mr Belluscio and Mr Enrique Petracchi, a High Court colleague, "corrupt thieves" because of their ruling in a case against the central bank. Both sued, but Mr Petracchi accepted a retraction last month.

Mr Cavallo was sacked three months ago after losing a widely praised job as economy minister. He beat hyperinflation and fostered growth with his 1991 plan pegging the peso to the dollar.

He has courted controversy since his sacking by continuing his personal crusade against official corruption.

Bringing Venezuela to book

Raymond Colitt reports on pressure for reform of a corrupt judicial system

Joaquín has been in La Planta jail, just outside Venezuela's capital Caracas, for nearly four years, accused of having stolen a piece of bread from his neighbourhood bakery. Although the real culprit has since admitted to the crime, Joaquín has been stuck behind bars. He has neither seen a judge nor a lawyer.

His is not an isolated case. According to the justice ministry, only 7,000 out of Venezuela's 25,000 prisoners have stood trial. And, as the long queues outside the country's tribunals indicate, justice is not easily accessible for Venezuelans outside prison either.

"I've been coming here for weeks," said one woman at a Caracas court, "and I know my case will be shelved to collect dust with others."

Even those with the money and clout to cut through the red tape and corruption and have their case heard find the country's judicial system a legal nightmare.

"You need to hire more lawyers in Venezuela than anywhere else," says Mr Stephen Goss, president of Venezuelan-British chamber of commerce, who himself has several court cases still unresolved after years of waiting. "It's a serious draw-

back to doing business here."

Public sensitivity to these issues has been heightened by events revealing the extent of extortion and inefficiency in the judiciary. A nationwide strike by court employees over delays in their pay and the massacre of 25 inmates in one of Venezuela's overcrowded prisons have added to concern.

"The judiciary has always been corrupt, clientelist and

A poll says 75 per cent of Venezuelans distrust their judicial system

politicised, but now the situation has become explosive," says Mr Alfredo Keller, pollster and political analyst. His latest opinion poll indicates that 75 per cent of the Venezuelan public distrusts the judicial system.

Just how daunting a task it is to reform Venezuela's judiciary is illustrated by the fate of a \$30m World Bank project designed to provide the judiciary with technical and administrative aid.

After sitting idle for years

because of a lack of matching funds from the government, the project, signed in December 1993, recently collapsed when the majority of the magistrates in the Council of the Judiciary, the principal agency charged with implementing the programme, abandoned it.

Mrs Gisela Parra, the council member who was implementing the project until she was dismissed last week, said reforms such as the random distribution of cases to judges or the introduction of oral and public hearings, threatened the interests of the magistrates who "currently do as they will".

"Those corrupt judges that publicly support reform in reality have boycotted the project because it is not in their interest. My colleagues simply have not understood the importance of a project for the good of the country," she adds.

Mr Waleed Malik, the project's manager at the World Bank, admits that progress "could have been swifter", but disagrees that the project should not have been initiated until the country showed a more serious commitment to judicial reform. "The idea was to support the effort and help build consensus," he says, adding that the World Bank does not

become involved in certain areas of the judiciary, such as criminal law or the penitentiary system.

Since Venezuela's return to elected government 38 years ago, its judiciary has been neglected and no reform effort will reverse that overnight, says Mrs Cecilia Sosa, the head of the Supreme Court. "The project of the World Bank is no panacea but it is an opportunity to gather support and show

head of En Cambio, an advocacy group for judicial reform.

En Cambio's proposal calls for all the country's 1,109 judges to be put on probation until approved by an eminent jury in a public process. It would also speed up half a dozen judiciary reform bills, including an extensive constitutional reform, which are currently stalled in Congress.

Mr Tablante says this is the only way to break "the machinery of corruption that has formed around judges and includes lawyers, court employees and political parties".

The government, meanwhile, has picked up the battle cry and appears to have recognised the urgency for reform. "There is an emergency which is endangering the very values and principles underlying public order," says Mr Henrique Meier, the minister of justice.

Yet assessments differ as to whether President Caldera, who was yesterday due to meet World Bank officials to discuss the issue, will provide the needed impetus for reform. "He has his hands free to do so," says Mr Keller. "He has the ability but I'm not so sure if he has the political energy to do so."



EU pressed on animal trap ban

By Nancy Dunne
in Washington

Animal welfare advocates will this week urge the European Commission to implement a long-delayed ban on fur imports from countries where leghold traps are used.

The European Union has said it will implement the ban at the end of this year unless the US, Russia and Canada reach a multilateral agreement on humane trapping standards. The unofficial deadline for the agreement is December 15 when EU environment ministers meet.

However, US officials said last week that little progress had been made on reaching a multilateral deal. If the EU pursues its ban the US is expected reluctantly to join Canada in a complaint to the World Trade Organisation.

The Clinton administration would like to avoid a controversial confrontation between environment and trade, but officials expect the US fur industry to file a trade complaint. This would, they say, oblige them to pursue the case in Geneva.

The US and Canada have tried to get agreement on a 5-10 year phasing out of the leghold traps, during which time international standards could be agreed and various types of more humane traps tested. Brussels insists it must have some kind of pact in hand.

Implementation of the EU

ban on fur imports has twice been postponed for a year. Under pressure from fur exporters and amid dissension in its own ranks, the Commission recommended that the ban be delayed again until the beginning of 1997.

Remote communities in northern Canada depend on trapping for as much as 60 per cent of their income. The trappers claim they perform a valuable information service for wildlife conservation officials.

Last year, an aboriginal group representing about 2,000 trappers asked senior Canadian trade officials to impose curbs on European luxury car imports in retaliation against the EU fur ban. The fur industry has also discussed boycotts against other European products.

Animal rights activists maintain that the leghold trap is the most cruel method of capture. They say leg snares, boxes and cage traps are more acceptable. Mrs Christine Stephens, president of the Animal Welfare Institute in the US, said US officials had been "talking shocking untruths" in contending that leghold traps had not been used for decades in the US. Mrs Stephens said only one-tenth of US fur exports - about \$228m a year - involved the 13 species of animals whose pelts have been banned from the EU.

Neither mink nor fox is on the list.

West coast ports feel winds of change

The west coast ports of the US that have enjoyed prosperity as the country's trade gateways to Asia for more than 20 years have had to contend with some unfamiliar bad news lately.

Just as Los Angeles and San Francisco were sighing with relief at the passing of a threat of dock labour unrest, word was beginning to spread that west coast trade volume was falling. It has since been confirmed that container traffic through the region fell in the year to the end of June.

The fall was less than 1 per cent, but noteworthy because it was the first reversal in the 24 years in which records have been kept. It was accompanied by continued shifts in shipping patterns which have rattled the most northerly port operators and given the southerners pause for thought.

Officials say the dip was probably the result of overstocked US shops following a relatively poor Christmas retailing season, compounded by a modest slowdown in world trade, and of currency swings. The more familiar 3 per cent annual growth trend should shortly reassert itself, they claim.

Long-term projections that US trade with the Pacific

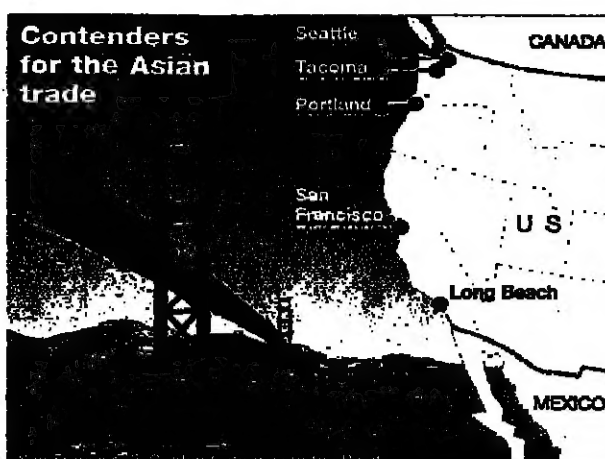
Rim will double in the next 25 years remain valid, they add.

If there is scope for optimism, there is also little room for complacency. The drift of Asian manufacturing capacity from Japan to more southerly regions is drawing volume away from north western ports such as Seattle and its neighbour Tacoma. Falling car imports from Japan - the result of the domestic industry's resurgence and increased manufacture of Japanese brands inside the US - are also taking their toll.

At the same time, shippers from southern Asia are being increasingly drawn through the Suez Canal to eastern US ports which serve populous markets in the hinterlands of New York and Detroit, and where cheaper dockside labour adds to the attractions. According to officials in the Port of Portland, Oregon, 8 per cent of all Asian seaborne cargo for the US now passes through the canal en route to the east coast.

In the year to the end of June, Seattle saw its container traffic drop by almost 8 per cent, although the 3 per cent gain at Tacoma offered some compensation. Their joint share of west coast trade fell almost 1 per

Contenders for the Asian trade



cent to 24 per cent in the sixth consecutive annual decline.

Next year they will face new challenges from Vancouver, just across the border, where the opening of a terminal will double the port's capacity. The Canadian neighbour also has the advantage of having conquered its land-based transport problems.

Earlier this year Hanjin Shipping, which formerly accounted for more than 10 per cent of all container traffic through Portland, shifted its north American landing point to Vancouver.

Seattle, which relies on members of the Asia Pacific

Economic Co-operation forum (Apec) for 86 per cent of its business, and on Japan for more than a third of its total yearly trade of \$74bn (\$45bn) is now responding to its changed circumstances.

Despite the latest setback, local officials stand by projections of continued growth in container traffic which underpin a \$500m expansion scheme under way. Aside from a 235-acre container terminal project, due for completion in 2000, the heart of this scheme is the dismantling of the rail network serving the port.

Soon, the port will have two new dockside spur lines, and a loop track big enough

to assemble a 9,000ft train of freight wagons.

The planned extra capacity is important, but speed is essential if it is to be best used. The north-west ports' former advantage over Los Angeles, for example, of a one-day shorter sailing time from Japan, is fading as Japanese manufacturing gives way to services.

A further disadvantage is the smallness of their local markets. Fast-growing southern California is home to 17m people - more than five times the population of Seattle's hinterland around the Puget Sound.

The effects of change are even apparent in San Francisco Bay, where the lively flow of electronic products and components between Asia and Silicon Valley has helped double the value of trade through the area since 1992.

Although San Francisco's exports to Japan soared 44 per cent in the first half of this year to \$8bn, imports fell almost 9 per cent to \$6.8bn - with shipments of Japanese-built cars dropping by 60 per cent to \$453m, according to Tradewatch, a market research company.

Oakland, the main seaport in the San Francisco Bay customs area, has managed to buck the container traffic

trend with a 1.5 per cent volume rise in the year to end-June. Even here the shift to bigger ships and the deep-seated changes in trade patterns have obliged the port authorities to invest in a harbour-dredging project and draw up plans for a new waterside rail terminal.

But there is no project anywhere along the coast to rival the \$800m expansion project under way at Los Angeles or the \$1.8bn development of a road and rail route to link the port to inland road and rail marshalling yards. The port is soon to have two new piers, a 230-acre container terminal for American President Lines and a 111-acre coal facility to feed Asia's steel and power plants.

Los Angeles and Long Beach Harbor next door are the linchpins of west coast commerce. They account for a quarter of all US trade and more than half the containers coming in and out of the region.

The twin ports' share of west coast trade is now 58 per cent compared with 53 per cent five years ago. Seattle-Tacoma has slipped from 28 per cent to 24 per cent.

Christopher Parkes and Anne Counsell

WORLD TRADE NEWS DIGEST

UK 'near pact' with Vietnam

British officials say the UK and Vietnam may be close to signing an investment agreement which would protect British investors in Vietnam.

After 18 months of talks, however, the two sides still disagree over whether British investors should be accorded the same treatment as local investors over issues such as tax. "We have total agreement on all points but this one and we are holding out," said Mr Stephen Turner, deputy head of mission at the British embassy in Hanoi. No comment was available from Vietnamese officials.

London bolsters its argument by reference to its \$3 investment protection agreements with other countries where British investors operate on a level playing field with locals.

However, Vietnam wants a deal that allows separate treatment, as enshrined in its foreign investment law. Hanoi has 23 pacts with countries - including some from the European Union - where a distinction is made between local and foreign investors.

Mr Turner said the UK hoped a compromise could be reached soon, based on a British proposal that UK investors already active in Vietnam would be treated the same as Vietnamese investors. However any future UK investors could be treated differently.

Britain ranks 18th among foreign investors in Vietnam, with \$435m invested in 19 projects. *Jeremy Grant, Hanoi*

Saigon river study agreed

Maunsell, the UK-based engineering consultant, is to carry out a British aid-funded study for a new crossing of the Saigon river linking Ho Chi Minh City with the Thu Thiem peninsula, a wetland area to be developed.

Maunsell, which has worked in Vietnam for four years, is also part of a consortium preparing a transport master plan for Ho Chi Minh City. The plan and the feasibility study for the proposed Saigon crossing have both been funded by Britain's Overseas Development Agency. *Andrew Taylor, London*

Shell seeks Andes gas plan

Shell Prospecting and Development Peru has invited two international consortia to submit proposals for bringing natural gas across the Andes to Lima from the Camisea gas fields. The consortia - both from the US - are headed by Bechtel and Fluor Daniel together with local Peruvian construction companies. Odebrecht of Brazil is participating in the Bechtel consortium, and Techint of Argentina in Fluor Daniel's.

The Camisea project is Peru's largest, with development costs estimated at some \$3bn. Much of this will go on construction of a 600km trans-Andean gas pipeline, associated plants and facilities. The Camisea deposits border the biologically rich Manu National Park where there are indigenous communities. Shell expects the design competition to last six months. *Sally Bowen, Lima*

■ Dominion Energy, a subsidiary of Dominion Resources of Richmond, a leading US independent power producer, has announced a \$35m investment in the Bolivian department of Cochabamba. Three separate projects for channels and tunnels will approximately double electricity power generation in the Corani dam. Dominion is part of a consortium of the four US-dominated power generating companies in Bolivia which plan to export some 600MW of power annually to south-west Brazil. *Sally Bowen*

■ A US\$33m construction management contract to build a new headquarters for the Kuwait Petroleum Corporation and Ministry of Oil has been awarded to a joint venture between Projac, a Kuwaiti company, and Bovis, the construction subsidiary of the P&O group of the UK. The headquarters due to be completed in 1999 will accommodate more than 1,900 staff in twin high-rise, curved towers. *Andrew Taylor*

■ Adtranz, the joint venture of ABB and Daimler Benz, may sign a \$200m deal with Polish State Railways (PKP) for the delivery of electrical locomotives this month, according to local reports. In September, the Polish privatisation ministry signed an initial agreement with Adtranz on selling 75 per cent of Pafawag, the rolling stock maker, on the condition that the Polish company and PKP agree on a locomotive delivery programme. *Raeder, Warsaw*

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NEWS: ASIA-PACIFIC

Hanoi may change rules on offshore loans

By Jeremy Grant in Hanoi

Vietnam's central bank has proposed a ban on the use of domestic collateral for offshore borrowing, provoking confusion among foreign bankers and casting doubt on the country's ability to formulate policy clearly. In a letter to the prime minister, the central bank recommends that the only form of security that should be allowed for foreign loans is a guarantee.

Pledging a joint venture's assets, which usually include buildings and machinery, fell "outside the governing scope of Vietnam-

ese laws," the letter said. Many foreign investors, including the World Bank private investment arm, the International Finance Corporation, have signed loan agreements based on the securitisation of domestic assets.

There are 10 loan agreements totalling \$310m to companies in which foreign investors have a stake yet to be signed, in which the parties had agreed to the mortgaging of assets. But that formula would be unlawful under the bank proposal.

Central bank draft policy statements carry weight in Vietnam, which has no cen-

tral law-making or law-drafting body. The result is a legislative free-for-all in which ministries and government compete to have their interests enshrined in law. "The whole problem," said one foreign lawyer, was that the central bank believed it was "the sole legislator as far as lending is concerned".

The proposal has caused confusion because, foreign lawyers say, it appears to contradict an earlier law, the Civil Code that came into effect in July, that allows buildings and machinery to be mortgaged under certain circumstances.

It has also disappointed

bankers, who already face obstacles to lending in Vietnam. These include lack of clarity over land title and a competitive market where about 25 licensed foreign banks are chasing the few bankable projects that exist.

In addition, the spirit of the central bank letter runs counter to the country's frequently repeated desire to attract international project finance capital for infrastructure projects.

An ability to mortgage assets is usually crucial in such cases, given that projects generate a negative cash flow in their initial stages. "If we can't take col-

lateral, what are we going to do?" asked one British banker.

Some see the bank letter as a statement of ideological principle, suggesting that no foreigner has right of ownership over assets in Vietnam. But it underscores Vietnam's continuing inability to produce clear legislation.

The country's recent law-making record is not encouraging. In June, the central bank slapped a 5 per cent tax on virtually all types of remittances coming into Vietnam. Despite complaints from foreign banks that the action resulted in a 50 per cent drop in the amount of

foreign exchange coming into the banking system, the central bank did not withdraw the law.

The question of whether Vietnam can get its legislative house in order is being seen as a test of its credibility, not only in the eyes of foreign investors, but donors who will gather in Paris in early December.

Hanoi has yet to legislate effective measures that would, for example, liberalise the export sector by relaxing the state's monopoly on import and export licences at a time when export performance is showing signs of weakness.

HK upset by China's troop announcement

By John Riddling in Hong Kong

China's announcement of plans to send an advance guard of PLA troops to Hong Kong before next July's transfer of sovereignty was yesterday described as a breach of confidentiality by the Hong Kong government.

"The request by the Chinese side to station PLA personnel in Hong Kong is a matter of confidential discussions," said a government spokesman. "We were shocked therefore to see details of these talks being publicly revealed by a senior Chinese official."

The spokesman described as "a serious breach of confidentiality" comments by Mr Cheng Shousan, deputy director of the Chinese foreign ministry's Hong Kong and Macao Affairs Office.

Mr Cheng said at the weekend China would begin stationing PLA (People's Liberation Army) soldiers and support specialists in Hong Kong early next year to prepare for the arrival of the army garrison on July 1.

He added that their number would be "less than a few hundred", although Chinese television later put the figure at about 300, and said the advance team would carry arms.

"What kind of arms the PLA advance parties will take will need to be discussed with the British in the Joint Liaison Group," he said, referring to the Sino-British body overseeing handover issues.

The presence of a PLA garrison in Hong Kong is a sensitive issue in the territory. Concerns have been fuelled over recent weeks by uncertainty about whether PLA soldiers will be subject to Hong Kong law, an issue which still requires clarification.

Mr Chris Patton, the Hong Kong governor, recently indicated that the government would accept a small number of PLA personnel to prepare for the arrival of the garrison. But he stressed that they should be subject to Hong Kong law.

The government said it had protested strongly yesterday about the breach of confidentiality. It also rejected the need for any advance team to carry weapons and expressed concerns about its reported size.

"We must emphasise again that no decision has been taken and no agreement has been reached on the Chinese side's request for the stationing of advance personnel," said a government statement. "The community is naturally very sensitive about this issue and would expect the British side to proceed carefully and cautiously."

The numbers planned for the PLA garrison in Hong Kong remain unclear, although the most common estimates range between 6,000 and 8,000. However, China also intends to maintain special economic zone across the border from Hong Kong.

Transport empire Malaysia invests to wrest for Mahathir's son cargoes from Singapore

By James Kynge in Kuala Lumpur

Mr Mirzan Mahathir, the eldest son of Malaysia's prime minister, Mr Mahathir Mohamad, yesterday took another step towards becoming the country's foremost transport mogul.

The company he controls, Konsortium Perkapalan (KPB), has through a subsidiary, Diperdana Corporation, offered to buy a Malaysian shipping company called PDZ Holdings, which operates a container shipping line serving south-east Asian ports.



Mahathir Mohamad

It is Mr Mirzan's third transport acquisition this year and if the bid succeeds, it would provide Diperdana with its first foothold in Sarawak, an area of considerable growth potential where Asia's biggest infrastructure project, a dam, is being constructed. The bid offer would value PDZ at M\$772m (\$306m), analysts said.

Mr Mirzan, 37, has the highest profile of the prime minister's sons. But he generally shuns the limelight and like his siblings, he has displayed no political ambition. He does not hold a position of rank within the United Malays National Organisation, the dominant party within the ruling coalition.

Earlier this year, KPB, which is a land-based haulage operator, revealed its seafaring interests when it bought the Hong Kong-based shipping company, Pacific Basin. It paid US\$230m for its outstanding shares, took on the company's debts and received a fleet of 23 vessels, with 13 on order from shipyards in China. At one stroke it became the nation's second largest shipping company, after the state-owned Malaysian International Shipping Corporation.

It also bought a shipping company called PMSL, which has 14

ships and two on order. Later, both Pacific Basin and PMSL were injected by KPB into Diperdana, creating a clear separation between KPB's haulage activities and Diperdana's shipping operations.

Much interest is now focused on whether Mr Mirzan will emerge as a leading contender to take a controlling stake in the national shipping line. The government said over a year ago its indirect 29.3 per cent stake in the company would be sold to the private sector. Industry analysts said that if the stake was sold to Mr Mirzan, he would completely dominate Malaysia's shipping and haulage business.

In such a position, he could better ensure that Malaysia acts to stem the large amounts of money it pays to foreign haulage and shipping companies. He could also help direct more cargo traffic through Malaysia's own ports, rather than through neighbouring Singapore.

The emergence of Mr Mirzan Mahathir as one of the prime movers in Malaysia's transport and shipping worlds is one of several strands in a strategy of national importance.

No effort is being spared in attempts to build up Port Klang, the nation's leading port, into a regional hub capable of competing with the world's second busiest port, Singapore. The impetus for this drive is to stem the torrent of cash which Malaysians spend every year in dispatching about 56 per cent of their export cargoes through Singapore.

If these cargoes can be re-routed for export through Port Klang rather than Singapore, the country will have gone a long way toward solving one of its most pressing economic problems.

The worrying increase last year in Malaysia's current account deficit, the shortfall in the trade of goods and services, was to a significant extent because of payments by Malaysian companies for foreign port, shipping and freight insurance services. Of a current account deficit of M\$18.7bn (US\$7.4bn) last year, some M\$2.8bn came from the deficit in freight and insurance payments.

Although the government has predicted that the current account deficit will narrow this year to M\$14.8bn, it remains one of Malaysia's most pressing economic problems. Stock market investors, especially foreigners, have long cited the shortfall as a key argument against investing in the local bourse.

In addition, the shipping of cargoes through Singapore increases the cost of Malaysia's exports and thereby reduces their competitiveness, officials said. Exporters have first to pay haulage companies for

James Kynge reports on a drive to exploit cost advantages and get exporters to switch to Port Klang

transporting their cargoes to Singapore and then they must fork out for port handling charges which are recognised to be higher than those in Port Klang.

As an indication of the cost differential, the transshipment charge for one 20-foot equivalent unit (teu) container in Singapore is about US\$88, as against about US\$66 in Port Klang.

"We don't want to compete with Singapore but we have to try to handle our own cargo and take back that part of our cargo which goes through Singapore," said Mr M. Rajasingam, general manager of the Port Klang Authority, which oversees the port's operations.

An ambitious expansion project at Westport, part of the Port Klang complex, shows how serious Malaysia is. About M\$3bn is expected to be spent on increasing the number of deep water berths at Westport from 12 to 32 in 2006, said a Westport official. By that date, it is hoped that the 3m teu of its cargo which now transit through Singapore will leave from any of the three terminals which make up Port Klang.

The success or failure of this endeavour will matter a great deal to Singapore, Malaysia's traffic is a lucrative and growing business for the Port of Singapore Authority

which in 1995 handled a total of 11.85m teu.

Malaysia's cost advantages have proven a potent lure for shipping lines operating on water-thin margins. In the first seven months of this year, 18 new shipping services started up from Port Klang. Some of these were mainline services which deliver cargoes to their final destination, often across the Pacific. Others were calls by "feeder" ships to deliver cargoes for later collection by the mainline vessels.

It is these mainline services which Port Klang is keen to cultivate. Some shipping executives go so far as to predict that, ultimately, there will be room for only one mainline port on the Straits of Malacca - either Singapore or Port Klang but not both.

One crucial precondition for a mainline port is the ability to attract sufficient feeder cargoes to enable mainline ships to take on a full load. It is for this reason that Malaysia's government is using its powers of persuasion to ensure that cargoes from the country's smaller ports are "fed" not to Singapore but to Port Klang. Exporters and transport companies, such as the one owned by Mr Mirzan, are being urged to send their goods to Port Klang so as to build up the amount of transshipment cargo at the port.

Malaysia is also hoping to attract feeders from the region.

"We want about 400,000 boxes [containers] from the Indonesian island of Sumatra, 800,000 from India and probably 100,000 boxes from Myanmar [Burma]," said Mr G. Ganalingam, the managing director of Westport.

"All of these are now going to Singapore," he added.

Bangladeshis succumb to stock market fever

By Kaara Naji in Dhaka

At the end of another day of trading, Mr Imtiyaz Hussein, chairman of the Dhaka Stock Exchange, looked stressed. "It's getting too hot for comfort. The prices have gone up again. I don't know by how much, I just know that the index has gone up again," he said.

Outside the exchange, a crowd of 30,000 had congregated. This is Dhaka's "kerb market" and it too is in bullish mood. Such was the people pressure outside the exchange that many were barred from entry.

The Dhaka index, which hovered around 1,100 in Sep-

tember, reached 3,587.68 yesterday after a 7 per cent rise on the day. Market capitalisation touched a record 237bn taka (\$5.59bn) yesterday from Tk120bn on October 2. It was only Tk19bn at the end of 1994. Last week market turnover - still calculated manually - averaged Tk470m a day, ten times greater than in the first quarter, as retail investors put savings into stocks.

The feverish demand has been driven, in part, by the political stability in Bangladesh since the election in the spring of the Awami League after almost two years of street agitation. Sheikh Hasina, the prime minister, has

accelerated decision-making in key areas - telecoms licences and export-free zones, for instance - and committed her government to further market reform.

"Here we have two markets on the go, with the kerb market driving the real market," said Mr Douglas Glen, the head of sales and brokerage at Peregrine (Bangladesh). "There is a very strong retail demand chasing too few shares," he said.

That is a reference to the thousands of small-time investors whose equities excitement is on show each day outside the exchange. "Today, I sold shares worth about Tk50,000 (\$1,180)," said

one young man who until a few months ago used to work in Kuwait as a supervisor of a cleaning company. "I have prepared myself mentally for the day the prices might crash. I have made a lot of money, so what if I lose some," he said.

But for a blip three weeks ago, the Dhaka index has defied market operators' expectations by its continuous rise, accelerating sharply from September.

To strengthen the market, the stock exchange management has urged the government to bring forward from fiscal 1996-97 its planned sale of up to Tk2bn worth of shares in state-owned com-



panies listed on the exchange. The hope is that increased state sell-offs will

take some of the heat out. Last week Mr Haroonur Rashid, head of Bangladesh's Securities and Exchange Commission, said: "The government as a first step will privatise the companies which are already listed with the Dhaka Stock Exchange to increase the market depth." He said the government would sell its stakes in multinational companies, which number about eight, by December.

"The government must act immediately. Why are they sitting on the shares of the state-owned industries which they have promised to release?" asked Mr Hussein. See World Stock Markets

ASIA-PACIFIC NEWS DIGEST

Dalai Lama asked to Taipei

A Taiwanese religious group has invited the Dalai Lama to Taiwan near the end of the year - a move which, should he accept, would infuriate China. The Buddhist Association, a Taiwanese private religious organisation, said it was awaiting a response. Taiwan's president, Mr Lee Teng-hui, has said he would welcome a visit from the Dalai Lama, as a religious leader.

A visit by the Dalai Lama to Taiwan, which Beijing regards as a renegade Chinese province, would hit a sensitive nerve. It is unclear whether the Dalai Lama would meet Taiwanese officials but China is bitterly opposed to efforts by Taipei and the Dalai Lama to forge international ties.

Taiwan's mainland affairs council, a cabinet-level agency, yesterday decided to lift a ban on the posting of mainland Chinese journalists in Taiwan. The measure is an attempt by Taipei to thaw ties between the two governments.

Laura Tyson, Taipei

Hong Kong GDP rises 4.3%

Strong investment underpinned a 4.3 per cent year-on-year rise in Hong Kong's gross domestic product in the second quarter of 1996, against a rise of 3.3 per cent in the preceding three months, official statistics showed yesterday. Economists said the performance reflected the territory's recovery from economic slowdown in 1995.

Gross domestic fixed capital formation rose 10.4 per cent in the second quarter, against the same period in 1995. Spending on machinery and equipment remained robust, rising by just under 16 per cent; private-sector construction spending showed its first rise in six consecutive quarters. Private consumption remained weak, rising 2.5 per cent in real terms after increasing 3.4 per cent in the first quarter. Domestic exports fell 9 per cent; re-exports' growth rate slowed. Imports growth fell to 5.2 per cent.

John Riddling, Hong Kong

Indian steel group cuts jobs

Tata Iron and Steel Co (Tisco), India's second largest steelmaker and flagship of the Tata group, plans to cut its workforce by a further 10,000 over the next three to five years, through voluntary redundancy. The move, the biggest planned workforce reduction in Indian corporate history, follows the closing of manufacturing facilities at Tisco's Jamshedpur plant in Bihar state, as part of a modernisation programme.

Workforce reduction programmes are rare in India because of tight labour regulations and the high cost of voluntary redundancy schemes. The number of Tisco employees has fallen from 78,000 to 70,000 over the past 18 months through voluntary redundancy. This saw the company make a provision of Rs419.7m (\$11.8m) in its results for the six months to September 30 for such costs.

Workers under 40 accepting redundancy will be paid their present salary up to age 60. Employees aged 40-45 will be paid 1.25 times their salary; older workers will receive 1.5 times.

Tony Tassell, Bombay

China dissident can appeal

Beijing's Supreme Court gave permission yesterday for Mr Wang Dan to appeal against his 11-year sentence for allegedly plotting against the government. The appeal will be held *in camera*, without Mr Wang or his defence team, his lawyer Mr Yang Dunxia said. "The court asked me bring my appeal documents to the supreme court next Monday," the dissident's mother, Mrs Wang Lingyun, said. Mr Yang said he did not know when the appeal would be held. Wang's 11-year sentence was widely condemned in the west.

APP, Beijing

Bhutto rival back in office

Mr Manzoor Wattoo, a rival of Pakistan's prime minister Benazir Bhutto, yesterday began his first day back in office as chief minister of Punjab by sacking several officials and ordering the release of detained students. Mr Wattoo, dismissed 14 months ago by presidential decree, vowed to fight "undemocratic" methods in the country.

Ms Bhutto warned the Punjab assembly would decide his future. The High Court said the chief minister could be asked to prove his legislative majority within 10 days, failing which he must quit.

APP, Islamabad

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Congress hardens line over support for UF

By Mark Nicholson in New Delhi

Leaders of India's Congress party met last night to review its relationship with the governing United Front coalition, to which it lends crucial parliamentary support, amid anger in the former governing party at the UF's failure in turn to endorse a Congress-backed government in the state of Uttar Pradesh.

The meeting is likely to result in a more hostile and independent posture by Congress towards the 13-party coalition, though senior party leaders have indicated that the Congress Working Committee (CWC), the party's chief executive body, would fall short of withdrawing support for the government.

Ties between Congress and the United Front have been strained since September's elections in Uttar Pradesh, India's most populous state and one of its most politically important.

The poll returned a hung parliament, with the

Hindu nationalist Bharatiya Janata party (BJP) emerging as the biggest grouping but well short of a majority.

Congress had insisted the UF, whose combined parties also fell short of a majority, should back an alliance of Congress and the low-caste Bahujan Samaj party as a direct political return for its national-level support for the United Front. However, weeks of political wrangling failed to produce agreement and the UF last month reimposed central rule in the state.

The UF, which won 115 seats in the May national elections, depends upon the parliamentary support of Congress's 142 MPs.

Congress, along with the Communist Party (Marxist) agreed to support the minority 13-party coalition to keep the BJP, which also emerged as the largest party at national level, from power.

Behind last night's meeting lies an attempt by Mr Sitaram Kesri, Congress president, to revive both the morale and independent

standing of the party, which had governed India for all but a few years since independence until its poor showing in the May polls.

Since its election defeat, Mr P.V. Narasimha Rao, former prime minister and Congress president until last month, has been charged in two conspiracy cases and faces swindling charges in a third case later this week. Three other former Congress ministers have also been charged in corruption cases.

As part of his attempts to refurbish Congress's sullied image, the 78-year-old Mr Kesri last month appointed Mr Manmohan Singh, the widely respected former Congress finance minister, to the CWC and charged him with keeping "critical scrutiny" of the UF's economic policies.

Mr Kesri has also begun efforts to persuade several former Congress MPs and factions that split from the party before the May elections to defect from the UF back to the mother party.

Iata vows to challenge Britain in the courts over 'impossibly low' curbs on airport take-off noise

Fuel costs 'threaten airline profits'

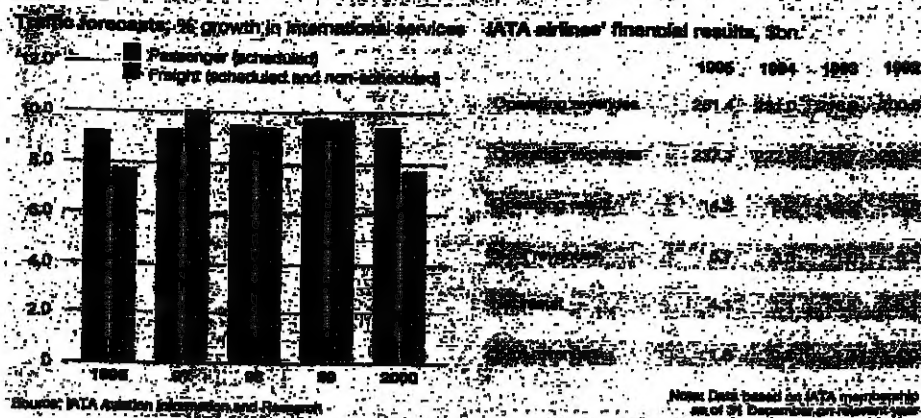
By Frances Williams
in Geneva

The airline industry is heading for a second year of record profits but soaring fuel costs and other charges threaten its "profitable flight path", the International Air Transport Association warned yesterday.

Mr Pierre Jeannot, Iata director-general, told the association's annual meeting in Geneva that its 24 member airlines were likely to generate net profits on international scheduled services of about \$5.6bn in 1996, up from last year's \$5.2bn.

Results have been boosted by increased passenger and freight traffic, and vigorous cost-cutting efforts, Mr Jeannot said. However, in April he predicted profits of \$6bn this year. The difference is accounted for mainly by ris-

World airlines' traffic forecasts and profits



Source: IATA Airlines Association and Transport Intelligence

ing prices for jet diesel fuel, which makes up 11 per cent of airline costs. The jump in fuel prices that followed the firing in September of US cruise missiles against Iraq is

costing the international airlines \$832m on an annual basis, Mr Jeannot said. Many European airlines have already decided to put up prices because of fuel costs. Air France, KLM and Northwest yesterday joined a lengthening list of airlines forced to raise fares because of fuel price rises. Swissair, KLM and Lufthansa also announced yesterday increased cargo fares.

Iata has called an emergency meeting in Geneva next week to discuss a response by its members, which account for 98 per cent of international routes.

The Mr Jeannot also announced yesterday that Iata planned a legal challenge to the British government's decision to introduce new noise limits at London's three airports. He told a news conference that Iata was hoping for quick action to "get a judge to put a stay on the rule". The association is taking legal advice on how best to proceed.

Iata's board agreed on Sunday to seek a judicial review of the British decision, which it said "could have far-reaching consequences for civil aviation operations in other parts of the world".

Mr Jeannot, former boss

of Air Canada, said limits had been set impossibly low, giving airlines little option but to break them on almost every take-off and incur heavy fines.

"These very stringent restrictions would affect nearly every airline operating into and out of London," he said.

"Even the most modern aircraft would not be able to conform if they take off with a full load."

The new limits, applying to Heathrow, Gatwick and Stansted airports, will cut permitted noise levels for departing aircraft. Britain's transport department is also considering the feasibility of setting new noise limits for landing aircraft.

Mr Jürgen Weber, Lufthansa chairman, said yesterday the British move "could set a very bad example".

Visa launches multi-function smart cards

By Mark Ashurst
in Johannesburg

Visa International yesterday launched its first multi-function smart cards in partnership with two South African retail banks, First National and Nedcor.

The new cards combine debit, credit, and pre-paid facilities, by using a microchip in place of the traditional magnetic strip.

Ms Anne-L. Cobb, president of Visa Central and Eastern Europe, Middle East and Africa, said the deal fulfilled "Visa's vision of the future of card payment products". Chip-based cards would replace paper-based and magnetic strip-based cash systems within 20 years, she said. South African banks were "very much in the lead" in developing this technology for debit and credit services.

FNB and Nedcor have issued more than 200,000 multi-function cards, under their own brands, since the South African industry agreed on an inter-bank standard for smart cards in October 1995.

These cards will now be branded with Visa, and will be converted to international EMV, Europay-Mastercard-Visa, standards by the end of next year.

A common standard for card transactions in South Africa had been adopted later than in many developed countries, but was already close to the international EMV standards agreed earlier this year. The South African variant would "allow customers access to multiple accounts at their financial institution," said Ms Cobb. In time, the cards would also be used to encourage loyalty programmes and to store personal information.

The Visa branding is expected to raise use of multi-function cards. Ms Gail Kelly, general manager of Nedcor card services, said

the two banks would invest R5bn-R7bn (\$1.1bn-\$1.5bn) in upgrading technology at retail points and banking machines with the aim of issuing 1m new cards within a year.

In June, Visa acquired the rights to the Universal Electronic Payments System, a software package used by South African banks to manage inter-bank cashflows. The group was "working with the two South African banks to implement the future platform" for global interoperability, said Ms Cobb.

South African banks have pioneered chip-based cards because of the country's poor telecommunications infrastructure and an over-reliance on cash in a society riddled with violent crime. It was initially devised by South African brewers as a safer and more efficient alternative to cash on delivery. Less than 30 per cent of credit card transactions are authorised on-line because of telecommunications problems.

However, a microprocessor and memory chip embedded in the new cards keeps track of clients' spending, reducing the banks' risk in card transactions. This would make formal banking services more widely available to low income groups, said Mr Viv Bartlett, FNB managing director.

The cards, secured by personal PIN codes, enabled "off-line transactions without the umbilical cord linking points of sale to mainframes". They could also be prepaid for use as "an electronic purse", which was a safer alternative to cash.

Ms Kelly said the South African model should not be compared with current projects involving the use of smart cards for electronic commerce in Australia, France and Japan. "We are not testing. We are authorising credit cards and debit cards."

Obituary: Jean-Bedel Bokassa

'French Africa's Idi Amin'

By dying in a hospital bed, Jean-Bedel Bokassa, the former self-styled "emperor" of the Central African Republic, enjoyed a privilege denied to the victims of his regime.

The 18-year rule of the 76-year-old once-dictator was characterised by a brutality that won him the nickname "Francophone Africa's Idi Amin". Cannibalism, infanticide and mass murder were among the charges levelled against him. He fled staged after his expulsion by the French, his former allies and protectors.

His huge excesses suggested a deeply disturbed individual. But he also optimised, at its most extreme, a wider phenomenon: the failure of young African states, undermined by a corrupt elite and the cynical indulgence of former colonial powers playing cold war politics, to cope with independence.

The son of a village chief, Bokassa was six when his father was assassinated; he was then orphaned by his mother's suicide - events that left him permanently scarred.

Joining the French army in 1958, he fought with the Free French forces and won a dozen medals in Indochina before leaving to form the army of the Central African Republic, which had just won independence from Paris. Six years later he ousted the first president of the underdeveloped nation.

At first Bokassa did his best to restore his country's finances, eradicate corruption and boost agricultural production.



Jean-Bedel Bokassa, former self-styled emperor of the Central African Republic

But as his hold on power tightened and his grasp of reality weakened, megalomania began and the country slipped ever deeper into poverty.

One edict stipulated that thieves should have one ear cut off for one theft, two ears for two thefts and a hand for three thefts. To mark Mother's Day, women prisoners were released and men convicted of assaulting women executed.

In 1978, modelling himself on Napoleon Bonaparte, he declared himself emperor, staging a coronation so lavish it drained an estimated quarter of the country's annual foreign exchange earnings.

Such antics made him a laughing stock abroad, but France - the real power behind the throne - tolerated his continuing presence as part of its policy of maintaining former African colo-

nies as a political and economic *chasse gardée* (private hunting ground).

The Central African Republic provided a convenient base for crack troops on standby to intervene to protect French interests across the continent. In return, hefty aid from Paris kept the faltering economy afloat.

Nonetheless, the aid came in 1979, when Bokassa's soldiers rounded up 200 schoolchildren who were refusing to buy uniforms at a shop owned by his wife and tortured, suffocated and shot them to death. While Bokassa was visiting Libya, France installed a cousin as president.

Tried in absentia, Bokassa emerged as a monstrous figure.

His cook testified that he had kept human bodies in a freezer and served them to the emperor for dinner; oth-

ers spoke of victims being fed to pet lions. He was sentenced to death.

Yet in 1986 he was back, apparently unable to tolerate a life of quiet exile in his chateau outside Paris and convinced he still enjoyed a following at home. This time he was sentenced to life, but later, having disavowed religion, he was released under a presidential amnesty.

Like many an outcast leader before him, Bokassa enjoyed something of a revival in his later years among a population yearning for certainties of the past. During the country's last elections, when he was still in prison, posters of him went up, and a minority called on him to stand as a candidate.

Their wish was not granted.

Michela Wrong

UK seeks new Mideast forum

By David Gardner
in Abu Dhabi

Britain's foreign secretary, Mr Malcolm Rifkind, called last night for a new forum of co-operation in the Middle East, to include the Arab countries and their neighbours, on the model of similar bodies which emerged after the cold war to link west and east Europe.

In a speech on British policy in the Middle East delivered in Abu Dhabi to the Emirates Centre for Strategic Studies and Research, he said: "There would be clear benefits in establishing what we might call an Organisation for Co-operation in the Middle East (OCME)".

The proposal, already discussed with Mr Warren Christopher, US secretary of state, and similar to ideas put forward by Crown Prince Hassan of Jordan, would create a body like the Organisation for Security and Co-operation in Europe (OSCE), perhaps along with

some of the economic functions of the Organisation for Economic Co-operation and Development (OECD).

The eventual goal would be to include all the Arab countries, plus Israel, Iran and Turkey, along with countries "not in, but of the region", such as the US, Russia, Britain and France, Mr Rifkind said.

"In Europe, we have learned how regional co-operation can heal the distrust between former enemies and build peace and prosperity," through organisations such as the EU and Nato.

"But we have also learned the value of having a comprehensive body where every nation in the region can come together on a basis of equality to work on problems affecting them," he added, referring to OSCE.

"It would be a forum in which the political tensions in the region as a whole could be dealt with," Mr Rifkind added.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES					JAPAN					GERMANY				
Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate	Consumer price	Producer price	Wholesale price	Unit labour cost	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.1	98.8	85.0	90.0	95.3	101.4	102.8	118.5	99.9	97.5	103.8	103.8
1987	105.5	100.7	103.9	97.5	78.1	101.3	92.5	103.1	100.0	122.8	100.1	95.0	107.9	107.1
1988	108.5	103.2	106.5	96.4	71.0	102.4	92.3	107.9	98.0	129.2	101.1	95.0	107.9	107.1
1989	111.2	106.5	109.9	101.4	74.0	105.1	94.2	114.0	99.9	123.5	104.2	99.3	117.1	108.0
1990	121.5	115.9	118.5	104.0	73.2	108.4	95.7	120.1	98.7	108.2	107.0	101.0	122.5	110.3
1991	128.6	118.3	117.3	107.3	74.1	111.9	96.6	124.2	103.9	113.2	110.9	103.4	131.3	109.5
1992	130.4	117.7	120.1	107.0	74.1	114.0	95.6	124.2	103.9	113.2	110.9	103.4	131.3	109.5
1993	134.3	119.2	123.1	107.7	76.8	115.4	94.3	125.8	118.8	132.3	121.7	105.1	145.6	119.4
1994	137.5	119.9	125.5	106.4	75.9	118.2	92.6	128.4	118.5	137.5	125.1	105.7	150.8	112.1
1995	141.7	122.2	129.7	105.4	68.9	119.8	92.0	132.5	115.6	138.6	127.4	107.5	155.8	110.6
4th qtr.1995	2.7	2.2	2.6	0.7	70.1	-0.5	-0.7	3.2	-1.2	188.6	1.7	1.3	4.3	3.0
1st qtr.1996	2.7	2.2	2.7	0.7	70.1	-0.5	-0.7	3.2	-1.2	188.6	1.7	1.3	4.3	3.0
2nd qtr.1996	2.4	2.4	3.4	-0.5	73.4	0.1	-0.9	1.8	-0.5	121.0	1.5	-0.6	3.0	110.3
3rd qtr.1996	2.9	2.8	3.4	73.8	0.0	-0.9	1.8	-0.5	118.2	1.4	-0.6	3.0	110.9	111.2
October 1995	2.8	2.3	2.7	0.7	69.5	-0.8	-0.6	2.3	-2.4	127.4	1.8	1.8	3.0	115.5
November	2.6	2.1	2.5	0.7	69.9	-1.0	-0.8	1.2	-0.4	125.9	1.7	1.3	n.a.	4.1
December	2.5	2.3	2.7	0.7	70.7	-0.5	-0.8	1.2	-0.4	125.9	1.3	1.3	n.a.	2.0
January 1996	2.7	2.2	3.4	0.2	71.8	-0.5	-0.8	-0.1	-2.3	122.7	1.5	0.0	n.a.	2.0
February	2.8	2.0	2.8	-0.7	72.1	-0.3	-0.9	3.0	-2.4	122.4	1.8	-0.2	n.a.	5.1
March	2.8	2.4	2.9	-0.2	73.8	-0.2	-0.9	2.7	-3.4	122.1	1.7	-0.2	n.a.	1.0
April	2.9	2.5	3.1	0.1	73.0	0.2	-0.9	2.4	-2.1	121.2	1.5	-0.5	n.a.	-1.0
May	2.8	2.5	3.4	-0.1	73.4	0.1	-0.8	2.1	-2.5	122.4	1.7	-0.5	n.a.	1.0
June	2.8	2.7	3.4	-0.6	73.9	-0.1	-0.9	0.6	1.2	119.2	1.4	-0.5	n.a.	0.0
July	2.9	2.6	3.2	-1.1	73.8	0.4	0.5	113.7	1.8	113.7	1.8	0.7	1.8	-2.0
August	2.9	3.0	3.5	0.2	73.4	0.0	-0.7	5.9	119.0	119.0	1.4	-0.7	n.a.	1.0
September	3.0	2.9	3.4	74.2	74.2	-0.4	-0.4	117.1	117.1	117.1	1.4	-0.6	n.a.	1.0
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NEWS: UK

Banks attack accountants' liability limit

By Jim Kelly, Accountancy Correspondent

The Big Six accountancy firms in the UK have been criticised by merchant banks for agreeing a ground-breaking "accord" to limit their legal liability to a maximum of £25m (\$40.75m) when advising on certain private deals. The Big Six are KPMG, Coopers & Lybrand, Arthur Andersen, Deloitte & Touche, Ernst & Young and Price Waterhouse. Under the contracts,

clients would in effect have to agree a cap on the extent to which they could sue their advisers if a deal failed because of negligent advice or work on the part of the accountants.

Mr Anthony Beevor of Hambros Bank said the "fixed ceilings" and "non-negotiable nature" of the contracts "ought to attract the critical attention of the competition authorities". Mr Beevor, chairman of the corporate finance committee of the London Investment Bankers

Association, said: "The principle is acceptable but it should be left to negotiation."

The new contracts will be seen as an attempt by the firms to try to stem rising legal costs by contract - while they are still pressing for reform of the law in those areas where their liability is unlimited.

The Big Six, on legal advice, have submitted the accord to the Office of Fair Trading. Mr Alan Comber, of KPMG, said: "The Big Six has acted on the matter of li-

ability in due diligence work to venture capitalists as a response to pressure from the DTI to limit our liability within the existing law."

The contract cap will mainly affect management buy-outs. It would have caught about 300 deals last year, 12 of which were worth more than £100m.

Under the cap, the liability of the accountants is limited to the lowest of three criteria - the so-called transaction size, £25m, or a special cap negotiated on deals with a

higher than normal risk factor.

Under the contracts the parties agree to ask a court to apportion blame after a deal fails. As a result, the cap can be revised downwards but not upwards. "Importantly, our OFT submission sees proportionality as a key principle alongside capping," said Mr Comber.

On a wider front, the merchant banks have opposed the big firms capping liability by contract because they fear the liability will shift to them.

UK NEWS DIGEST

\$41m boost for agency funds

Government funding of the Welsh Development Agency is to increase this year by £25.4m (\$41.1m) largely because of the cost of winning the £1.7bn inward investment project by LG of South Korea.

LG is to create 6,100 jobs with an electronics plant and a semiconductor facility at Newport in south Wales. Mr William Hague, the chief minister for Wales, said in the House of Commons yesterday that £20m of the increased funding was specifically for the LG project.

The Korean company is being provided with a serviced 100ha site by the WDA and the £25m will be largely spent on infrastructure. The total amount of government aid promised to LG has not been disclosed, but it has been unofficially estimated that it could eventually be as much as £200m.

Until yesterday's announcement, the government was contributing £40m to the WDA's basic budget this year of £190m. The increased grant, plus additional agency receipts of £11.7m, will now lift the budget to £157.1m.

There had been fears that the budget, under pressure since cuts in grant imposed by Mr Hague's predecessor, Mr John Redwood, was being further stretched by the LG project. The main opposition Labour Party said last night that the agency's budget was only being restored to pre-Redwood levels.

Roland Adurburgh, Cardiff

RAIL PRIVATISATION

Car parts group is bidder

Unipart, the automotive parts distributor and manufacturer, and three development capital groups are understood to be bidding for Railpart, the nationalised supplier of train spares.

If Unipart is successful, this would broaden the scope of its business which is currently concentrated in supplying the motor industry and in handling distribution for Hewlett-Packard, the computer manufacturer. It would also allow cost savings on distribution depots and networks.

Railpart was put up for sale last March and a deal is expected to be concluded by the end of the year. The company made a profit of just over £3m (\$14.7m) on turnover of £215m last year. The development capital bidders are understood to be Apex Partners, Baring Venture Partners and Philidrew Ventures. Unipart was acquired by its management from the British Leyland motor group in 1987. It made pre-tax profits of £31.5m on turnover of £284m last year.

ABB Daimler-Benz (Adtranz) has won a £12m (£19.5m) order to modernise 64 three-car electric trains in Britain over three years. The work will be done for Eversholt Leasing, one of three leasing companies set up under privatisation of the national network.

Charles Batchelor

FARMING RESEARCH

Government unit to be sold

Most of Adas, the government's farming research and consultancy agency, is to be offered for sale immediately. Mr Douglas Hogg, agriculture minister, said yesterday. The agency research and development business had a turnover of £50m (£81.5m) this year. "We will invite expressions of interest for the business as a whole or any or all of its constituent parts - consultancy, R&D and the laboratory - although our preference is to dispose of the business as a whole," Mr Hogg said.

George Parker

FILM INDUSTRY

Deadline set for franchise bids

The Arts Council has set a deadline of February 28 for applications for its four film franchises being funded with the help of the National Lottery. Prospective bidders for the franchises, each of which will be entitled to up to £29m (£36.8m) of lottery funds over six years, must declare their intention to bid by December 16, and submit final applications by the end of February. Bidders must operate in England, but need not be British-owned. The Arts Council, which hopes to choose the successful applicants in May, sees the franchises as an opportunity to strengthen the structure of the volatile UK film industry, now enjoying a revival with commercial successes such as *Trainspotting* and *Secrets & Lies*.

Alice Rawsthorn

ECONOMY

Spending seen to strengthen

The amount of cash circulating in the economy grew unexpectedly sharply last month, suggesting that spending in shops has probably rebounded after September's weak performance.

Expectations of another rate increase ahead of the general election continued to mount in the financial futures market. The pound was little changed for most of the day, but leapt higher in late trading to close at an 82-month high against a basket of other currencies.

The narrow money supply measure M0 - cash plus banks' balances at the Bank of England - rose by an unexpectedly strong 0.7 per cent last month, after adjusting for normal seasonal patterns. This lifted the annual rate of increase from 7 to 7.5 per cent, further above the 4 per cent ceiling of the Treasury's "monitoring range".

The monthly growth rate of cash in circulation was stable at 0.4 per cent. The Department of the Environment reported yesterday that the number of new houses started in the third quarter of the year totalled 47,100, up 16 per cent on the previous quarter.

Robert Chote

Oxford to vote today on Said's offer

By Richard Welford in Oxford

Oxford University teachers will vote today on controversial plans to build a £40m (£65m) business school on a undeveloped city-centre site.

Academic opposition to the business school has mounted since the plans were announced in July after a £20m donation by Mr Wafic Said, the Syrian-born entrepreneur with links to the Saudi royal family.

A meeting of the university's congregation, or parliament, will decide today whether to build the Said Business School on a sports ground used by university staff. Many academics have backed a campaign by more than 1,000 university staff to block the building.

University leaders remain confident they will win the ballot, saying Oxford needs a

world-leading masters in business administration course. The university's first intake of about 50 MBA students arrived last month.

However, the business school faces more serious opposition from members of Oxford City Council, who appear unlikely to grant it planning permission.

At the centre of the controversy is the site itself, close to Mansfield College.

Both the university and Mr Said are keen to place the business school "at the heart of the city and the university". But when the university bought the land in 1983, it promised to maintain the sports pitches as a green space "in perpetuity".

The planning debate is likely to pose substantial obstacles to the university's schedule for the business school. It hopes to open the



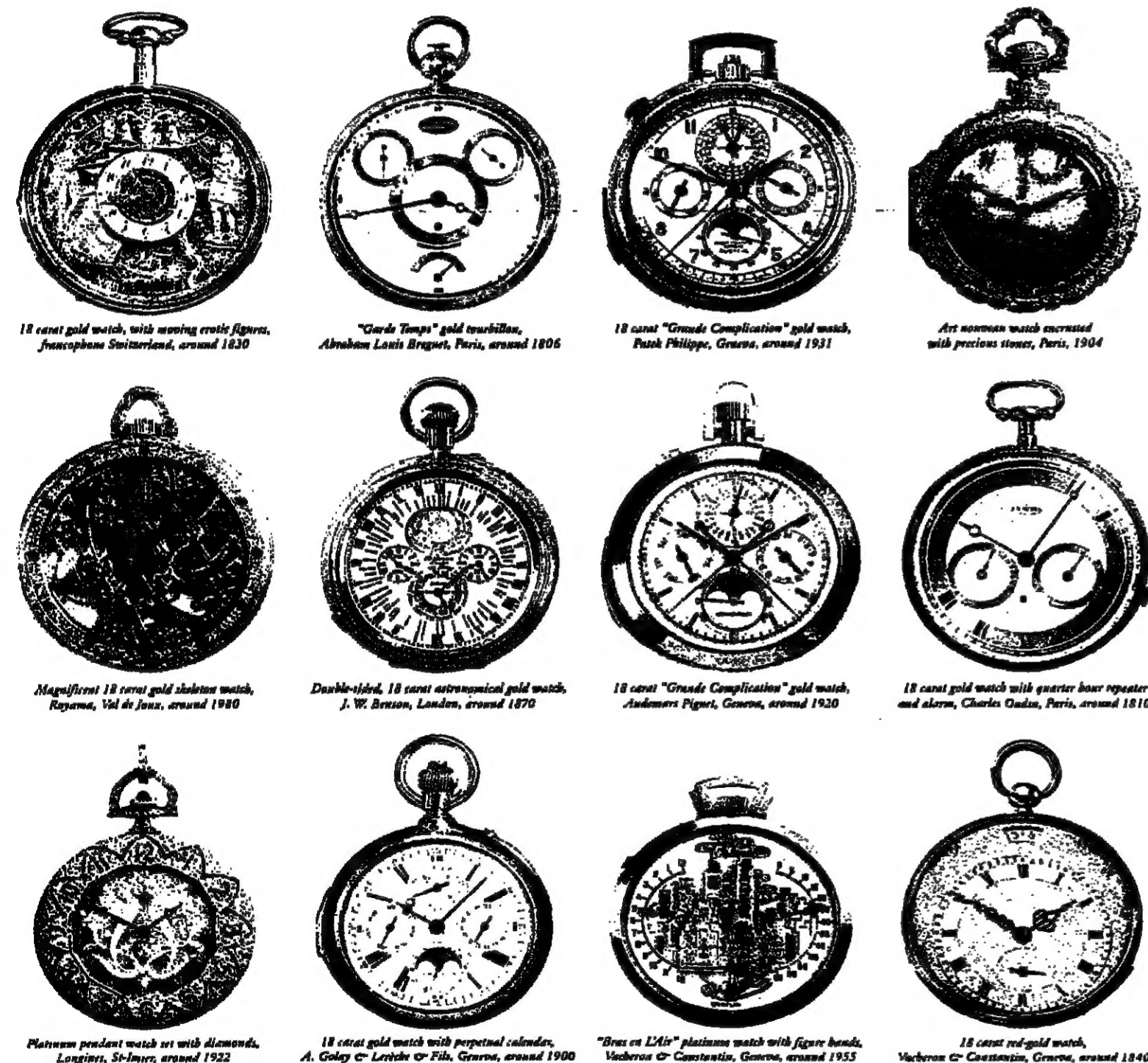
Wafic Said wants the school built on the sports site (above) 'at the heart of the city'

new building in two years, but is likely to be frustrated by councillors demanding a public inquiry into the plan. But the university expects to win public support because of the likely economic impact of the school. The private sector has already pledged £10m alongside Mr Said's donation.

Dr Paul Fisher, director of external relations, said: "All the evidence from every major business school in North America and Europe is that they bring substantial economic benefits to the region."

Within the university, some have criticised Mr Said's donation itself because of his role as an agent for British Aerospace in the Anglo-Saudi Al-Yamamah oil-for-arms deal.

But more emotive has been the possible loss of the sports facilities. Dr Ralph Highnam, who has co-ordinated opposition among university staff, said: "Surveys have shown that practically everybody feels marginalised and excluded by the university. Removing what few facilities we have is not the best way to acknowledge us."



18 carat gold watch, with moving crescent figures, J. Neufchatel, Switzerland, around 1830

"Garde Temps" gold tourbillon, Abraham Louis Breguet, Paris, around 1806

18 carat "Grande Complication" gold watch, Patek Philippe, Geneva, around 1931

Art nouveau watch encrusted with precious stones, Paris, 1904

Magnificent 18 carat gold skeleton watch, Piquard, Val de Joux, around 1880

Double-sided, 18 carat astronomical gold watch, J. W. Benson, London, around 1870

18 carat "Grande Complication" gold watch, Audemars Piguet, Geneva, around 1920

18 carat gold watch with quarter hour repeater and alarm, Charles Oudin, Paris, around 1810

Platinum pendant watch set with diamonds, Longines, St-Moritz, around 1922

18 carat gold watch with perpetual calendar, A. Godey & Lefebvre & Fils, Geneva, around 1900

"Breguet à l'Air" platinum watch with figure hands, Vacheron & Constantin, Geneva, around 1955

18 carat red-gold watch, Vacheron & Constantin, Geneva, around 1840

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Andrew Baxter looks at developments in Europe and the US to contain unpleasant emissions from petrol tanks

An attack of the vapours

If you fill up your car on a hot day at a petrol station in the UK, France or several other European countries, you are likely to see a hazy mist around the tank inlet. It is petrol vapour from the empty tank escaping into the atmosphere.

It happens on cold days as well, although the effect is then more noticeable to the nose than the eyes. Drive across to Germany, or Austria, however, and there will be little or no haze or smell, whatever the weather.

These countries are among eight in the European Union which have legislation, or announced legislation, requiring equipment to be installed at filling stations to recover the vapour from the car's tank and send it back to the tanks under the forecourt. Switzerland, some eastern European countries and several US states and cities have similar rules.

The legislation, which began at local level in cities such as Göttingen and Munich, has been introduced because petrol vapour contains small quantities of volatile organic compounds (VOCs) which can contribute to low-level ozone formation. Also, up to 2 per cent of the vapour is benzene, which is widely accepted as a carcinogen. Ironically, benzene levels can be slightly higher in unleaded petrol than in leaded grades.

Potentially, say emission equipment suppliers, there is a health risk from these emissions – if not for customers then at least for forecourt staff at operator-attended sites who might be exposed to the vapour throughout the day. The questions dividing the oil and motor industries, pump and dispenser equipment suppliers and environmental authorities are what, if anything, should be done about this – and how.

There are opportunities for vapour to escape throughout the distribution chain, but many of the leaks are being plugged. When underground forecourt tanks are being filled, for example, the flow of new petrol displaces an equivalent volume of

vapour left over from the old consignment. In the past, that would have been released to the atmosphere through the storage tank vent pipe. Now, under legislation being passed in across the EU by next year, the displaced vapour has to be routed back into the top of the tank and taken away to be processed back into petrol.

The controversy focuses on the final link in the chain, known as Stage II, when the car is being refuelled. "It's a real problem that affects every motorist," says Nicholas Hobson, general manager of Fenner Fluid Power, the UK vacuum pump producer.

"Every time you expose the petrol tank to the atmosphere, you release the vapour." But the oil industry says customers at filling stations are only exposed to the vapour for a few minutes at a time. "Given the amount of vapour the motorist is exposed to, it is an extremely low-risk situation," says Martin Marriott, gasoline product manager at Shell International Petroleum. It is still a reasonable risk for employees at operator-attended filling stations, he says.

Across the EU, VOC emissions from vehicle refuelling are estimated at about 250,000 tonnes a year, about 2 per cent of the 12m tonnes emitted annually from all sources. The percentage could double by 2005 as curbs on more important emissions, notably car exhausts, take effect.

But recovery of filling station vapour is likely to fall short of 250,000 tonnes a year. According to the latest version of a draft EU directive on controlling Stage II emissions, produced in 1994 but never published, smaller filling stations selling less than 2.5m litres a year would be exempt. In contrast, the Commission's controversial "Auto Oil" proposals, unveiled in June, aim to cut emissions by 1m tonnes a year by 2010, through cleaner fuels and tighter curbs on vehicle emissions.

Apart from dispenser-based vapour recovery systems, there is a different approach: onboard vehicle recovery. This involves putting a large activated carbon canister in the fuel tank to soak up the old vapour when the tank is refuelled. The vapour is recycled via the engine.

Both systems have advantages and drawbacks. The dispenser-based approach can bring recovering only 75 per cent of the vapour. There came assisted balance systems, which incorporated a jet pump or blower to help recover the vapour. These worked better than passive systems, but were unpredictable. There was a risk of air being pumped back with the vapour, exacerbating the problem underground. They were relatively inexpensive for new petrol stations but difficult to retrofit.

In response to the disadvantages of the earlier systems, "active" systems were introduced in the early 1990s. They use a small vacuum pump, normally fitted in the dispenser,

which creates a low vacuum to suck the vapour from the car's filler pipe. A control system ensures vapour recovery closely matches fuel delivered. "It is important to make sure you suck as hard as you blow," says Simon Usher, engineering manager at Fenner Fluid Power, which makes vacuum pumps. No seal is needed and the systems are relatively cost-effective to retrofit, says the UK company.

Fenner is one of the few UK equipment suppliers making components for vapour recovery systems. In Europe, most of the suppliers of the nozzles, hoses, control valves and microelectronics are German, such as Elaflex, Europe's biggest nozzle producer.

The main technical challenge for Fenner was to design a pump strong enough to withstand a fast-moving slug of liquid petrol, which can be sucked down the vapour recovery hose when the tank is refilled. This was solved in 1992 by using a one-part rotor in the pump.

Since then, production of the vacuum pumps at Fenner's Romford factory has risen to 1,000 units a month. Fenner says it is the only manufacturer with a pump certified for use on two nozzles at once.

The next steps for equipment suppliers will be to reduce the need for regular maintenance

Something in the air: how vapours are recovered



Emissions at UK filling stations

Smelling is believing

J.Sainsbury, the UK supermarket group, has installed Stage II vapour recovery systems at 35 of its 180 petrol stations, and for anyone used to petrol vapours, the difference is very noticeable, says Alison Austin, environmental manager.

Sainsbury's decision has ruffled feathers in the oil industry, as many companies believe it merely draws attention to a problem which has been exaggerated. But, says Austin, "Our view is that, given this is a problem that faces everybody, if you can do something about it, then you should."

The group's decision stems from a review two years ago of all aspects of its activities and their impact on air quality. Fitting the equipment which captures vapours released when the storage tanks are refuelled was completed in March, 18 months ahead of the legal requirement.

Stage II equipment, fitted to the pumps used by customers, is being installed at all new sites and those that are undergoing big refurbishments, says Austin.

Tests showed the equipment had a "very positive" impact on reducing emissions of volatile organic compounds. Measurement at a filling station in Kimberley, Nottingham, showed a 40 per cent reduction in emissions at the pumps, with reductions also measurable 50 metres away.

It is not known when, if, or in what form the EU draft directive will be enacted. And while some EU member states are toughening existing legislation, others are waiting for an EU directive before acting.

In the UK, most petrol retailers are also waiting for legislation. Shell and others, when refurbishing stations or building new ones, are putting in all the pipe work for vapour recovery, without installing the system itself. That would enable them to retrofit the equipment relatively inexpensively if legislation were introduced. Among big name retailers, it is understood that only J.Sainsbury, the UK retailer, has gone further.

Meanwhile, results are expected shortly from a Department of Environment pilot study this summer to assess the exposure of the population to benzene from petrol stations. This looked at how well Stage II (refuelling the filling station tanks) and Stage II vapour recovery systems performed.

In the US, where the earliest Stage II systems were introduced in California, a controversial battle in the late 1980s between the oil and motor industries ended in compromise. Under the 1990 Clean Air Act, cities with the worst air pollution had to phase in dispenser-based systems, but carmakers will have to fit the large onboard canisters from the 1998 model year.

Once most cars have the canisters, the dispenser-based systems can be removed. The arrangement makes a lot of sense, says Don Zinger, a senior Environmental Protection Agency official. The dispenser-based systems reduce pollution quicker, but enforcement of the regulations is harder.

Whichever way the legislation goes in Europe, however, one question will remain for oil companies, garage owners, motorists and tax authorities to "chew" over: "Who owns the vapour anyway?"

AB

Recovery systems up in the air

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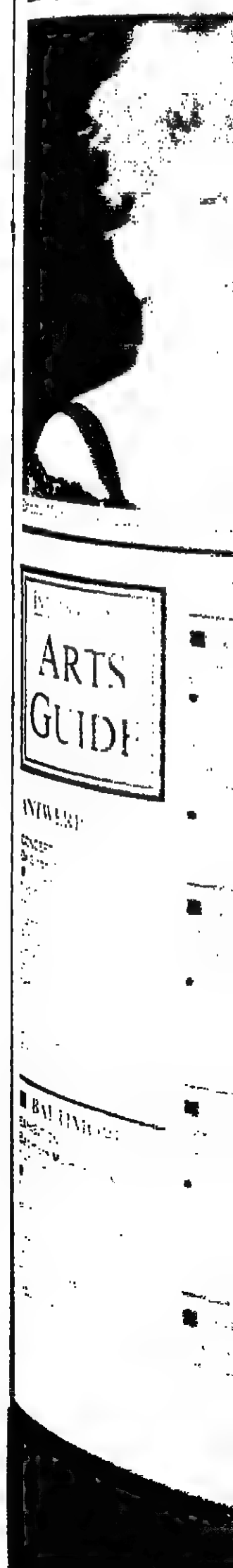
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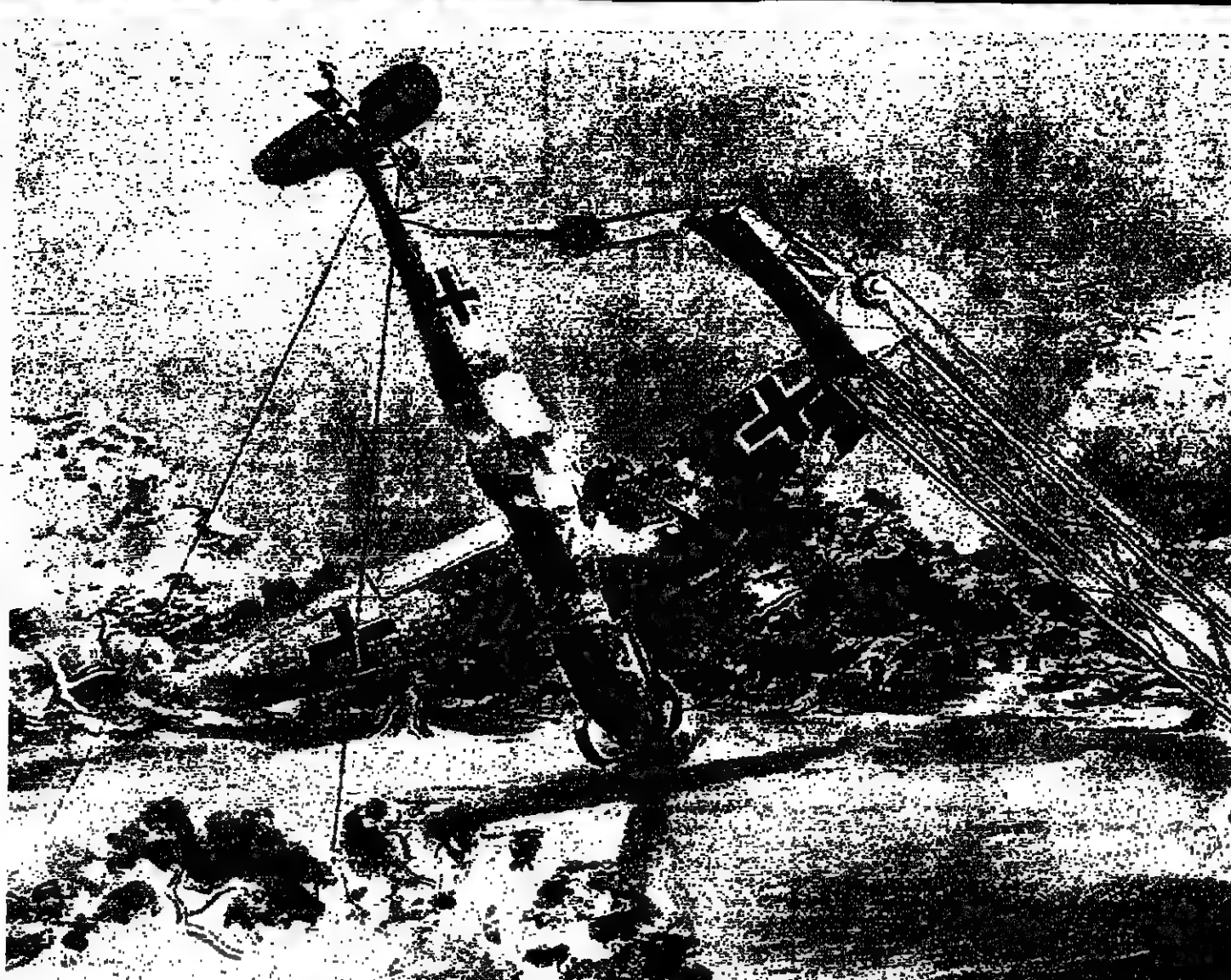
Paul Nash is one of the most particular and intriguing of British artists of the 20th century and, in his way, one of the most significant. Although by the time he died in 1946, at the comparatively early age of 57, he was as famous - or at least notorious - as it is possible for a modern artist to be in England, today his work deserves to be more celebrated than it is. Had we the confidence in our visual artists that the French or the Americans have in theirs, his would have grown into and remained a properly international reputation.

Active before the first world war, he was in touch with Wyndham Lewis's Vorticists and flirted with the Bloomsburys. He served in the trenches and was one of the first of the young war artists. But whereas, after the war, his peers - Nevinson, Wadsworth, Bomberg, Lewis himself - seemed in some degree to recede from their modernist engagement, his own commitment, both formal and conceptual, remained as strong as ever. And through the two decades between the wars, he brought together and reconciled, as no other artist of his time, the several principal strands of modernism in painting - cubism, symbolism and surrealism.

In 1930 Nash was among the first to be recommended by the War Artists Advisory Committee, and the four large canvases he subsequently produced under the aegis of the Air and Information Ministries form the core of the exhibition now at the Imperial War Museum. But impressive as they are, they are not the whole story. The point the show makes so effectively is that, far from being an opportunistic reaction to a new circumstance, they sprang from and were the natural continuation of a body of work begun rather more than 20 years before.

That point is made immediately by the hanging side by side of the very first of the new war paintings, "Totes Meer" (1940-41), and the "Winter Sea" (1935-37). The one is a dense jumble of broken German aircraft, that Nash had seen at a dump near Cowley, rising and falling beneath the pale moon like breakers on the shore, the other a cooler image, more formally contrived, yet no less fraught with foreboding and despair. The desolate, heaving morass of no-man's land in his "The Menin Road" (1919), on show in the gallery next door, reinforces even more the sense now of a return to a long-cherished theme.

The third painting in the sequence, the "Defence of Alton" (1945), more overtly allegorical, again has sea and shore and a darkling sky but also a



One of his 'aerial creatures': 'The Messerschmidt in Windsor Great Park', by Paul Nash

Wartime surrealism

Paul Nash deserves a greater reputation, argues William Packer

huge white Sunderland Flying Boat as its central and commanding image, as if it were a latter-day unicorn defending the realm. Faintly comical in its inadvertent bathos, it is the least successful of the four, but, leaving that aside, it again relates directly to earlier work, in particular his symbolic landscapes of the 1930s, with their suns and moons, their monumental cubes, monoliths and fallen trees, like dragons in the fields.

The connection is also evident in the many studies of aircraft in the show, a connection Nash himself makes clear. At the last, there comes among "my aerial creatures, perhaps the strangest of them all... No fish, not a bird, not quite a reptile, not wholly an

insect... (The Hampden Bomber) is plainly some sort of pterodactyl... it is a creature of the skies... Presently the moon rises, and there goes the flying lizard, gliding across the cloud's edge, its pale eyes flickering in the lunar rays..."

The other two major paintings make a pair, "The Battle of Britain" (1941) with its tangle of vapour trails soaring above a schematic estuary, and "The Battle of Germany" (1944), again a high, abstract, cosmic, near abstract image with its great pillar of smoke, black and red, that billows above a grey sea and occludes a patchwork continent beneath a black, pale moon. And

again with these two the working context is made plain, not just in the satirical anti-Fuhrer collages, and the bombing raids against the enemy, all clouds and searchlight shafts and the smoke of bombs and anti-aircraft shells, but in images that are rather more lyrical and detached.

A "Cumulus Head" (1944), heavy and red with thunder, piles high into the sky. The heaving mass becomes a flower, "The Flight of the Magnolia" (1944), that now fills the sky above the sea. Now it is a dark brown ball with a corona of petals, "The Eclipse of the Sundowner" (1946), of which the giant head lies dead in the field below, like another monster "Bomber in the corn" (1940). It all comes together.

Nash was never the most fluent or natural of artists. His drawing is often uncertain, his painting always more deliberate than assured. But the substance is there, a consistent achievement of which this work of the second world war is the culmination. Had he lived, the story would surely have gone on: as it was, the next generation of Bacon, Sutherland and Moore rather stole his thunder. But they could not have followed where they did, had he not led. We are well reminded of his true quality.

Paul Nash - *Aerial Creatures*: Imperial War Museum, Lambeth Road SE1, until January 28, then on to Oriel Mostyn, Llandudno.

Opera in New York/William Weaver

Britten arrives from upstate

When the current season of the New York City Opera was announced earlier this year, the programme included the local premiere of Britten's *Gloriana*, a work unknown to the American opera-going audience. The repertoire had been determined by the company's artistic director, Christopher Keene, before his untimely death in October 1995; but then, bowing also to financial considerations, Keene's successor Paul Kellogg felt it necessary to replace *Gloriana* with the more economical *The Turn of the Screw*, which opened last week.

This production aroused considerable curiosity among New Yorkers, not only because *The Turn of the Screw* is almost as unfamiliar as *Gloriana*, but because the staging was borrowed from the upstate Glimmerglass summer opera festival, of which Kellogg has been the moving spirit since 1979. At that time performances were held in a school auditorium and the festival's budget was a little over \$70,000; under Kellogg a new \$5m opera house was built, and the budget rose to \$3.5m.

Accepting the New York post, Kellogg declared his intention to continue running Glimmerglass (the City Opera does not perform in summer); and he revealed the prospect of fruitful exchanges between the two organisations. And, in fact, this *Turn of the Screw* was the first import to Lincoln Center from upstate.

Hence the curiosity about the Britten opera and about the production, created for a theatre with under 1,000 seats and now presented in the 2,779-seat State Theater. Simply put, the question

was: would it work? An important question because, whether it worked or not, it was to be only the first of a series of Glimmerglass-to-New York trips.

It worked. As a matter of fact, despite the very different capacities of Glimmerglass and State Theater, their stages are exactly the same size, so John Conklin's sets seemed in perfect scale, and the staging of Mark Lamos made full use of the space. This production could have been born for it. That is not to say that the work of Lamos and Conklin was altogether satisfactory. It was not so much the gimmicks (Mrs Grose's Jackie-like sunglasses, the absence of the Governess's desk and her unsuitable wardrobe), as the lack of a coherent point of view.

Still, with the help of Britten's magical, spooky score, beautifully played by the NYCO orchestra under Robert Duerr, there was a compelling, haunted mood, and the finale was appropriately hair-raising. Kellogg assembled a strong cast, some of it also coming from Glimmerglass, headed by the affecting Lauren Flanagan as the Governess, Adam Klein as a honey-voiced Quint, Alexandra Hughes as sober Mrs Grose and the crystalline soprano Christine Abraham as Miss Jessel. Robin Leigh Massie was an effective, shifty Flora, and Zachary London - though he seemed too young and not sufficiently ambiguous for Miles - sang sweetly.

While Kellogg at present is, for the most part, carrying out the plans of his predecessor, he has already set his seal on the City Opera, and the prospects for its future are bright.

Concert/Stephen Pettitt

Gardiner's light and shade

John Eliot Gardiner has forged some unlikely partnerships. His four-year connection with the North German Radio Symphony Orchestra in Hamburg was a peculiar collision of opposites, the perennial adventurer taking on a costly established outfit and duly rocking the boat. The fact that he is often invited back to the Vienna Philharmonic says much for that usually tradition-bound orchestra's eagerness to reinvent itself. And lately he has been conducting another of northern Europe's orchestras with a safe reputation, albeit one of lush sound and greater refinement than the Hamburgers.

Plainly a special chemistry is at work when Gardiner conducts Amsterdam's Royal Concertgebouw Orchestra, as we heard at the Barbican Hall on Sunday. He played the one trick guaranteed to make any orchestra listen to itself with fresh ears: he changed the seating plan. The violas were placed on the outside and the double basses lined centre stage, behind a single row (not the usual two) of woodwind. The sound from the auditorium seemed firmer, better balanced, than usual, with the violas' singing tone - and what a lovely tone it is - particularly prominent and the solid foundation provided by the basses evenly distributed. The music was an appealing mixture of early Romanticism,

beginning with Weber's Overture - crisp and clear, with a daring edge to it that hasn't always been a characteristic of the Concertgebouw - and ending with Schubert's Ninth Symphony, a naturally paced, carefully detailed and precise reading, both noble and human. It showed that when light is allowed into the music's shades seem all the shadier.

Earlier the players had been warned to their task by Berlioz's extraordinary scene lyrique, *La mort de Cléopâtre*, the work he wrote in 1829 in the full expectation that it would win for him the coveted Prix de Rome. One can well understand the jury's reluctance. The immediacy of the music's response to Viennese text, its bold onomatopoeic gestures (the heartbeat suggested by double basses at the end, for instance, or the shivering diabolism played by the entire string section on the bridge), its disdain of textbook forms and harmonic processes, must have made it seem odd indeed.

But it is also brilliantly inventive music, a wonderful vehicle for its mezzo-soprano soloist. Here Anne Sofie von Otter, in glorious voice, did the work ample justice, colouring her line with a flexibility and power that I had not hitherto heard, even from her.

Stalwart of the nearly-stars

Anthony Thornecroft reviews Donna McKechnie

Donna McKechnie is best known for her Tony winning performance in the role of Cassie in the Broadway production of *A Chorus Line*, and her London appearances in misadventures like *From Here to Eternity* and *Company*, known that is by that coterie of fanatics whose lives revolve around the musical theatre.

Fortunately there are enough of them to almost fill the Jermyn Street Theatre, a tiny basement club which is leading the current London revival in musical comedy. With so many big and successful musicals crowding the West End stage it is to be expected, and welcomed, that the performers, and those who do not quite make the final audition, should want somewhere to

unwind, to try out new work - and to show off.

Donna McKechnie is a dancer, which is a misfortune on this tiny stage with hardly room to swing a gerbil. She is dressed for exercise class, and points a toe at the appropriate angle before giving us her life story. It is the usual farfarrago - an unhappy Mid-West childhood and liberation through dance - and song.

It is a pity that she is directed. The tiny bits of business - picking up a scrap of paper from the floor, joshing with the trio of musicians - sit uncomfortably with what should be the free and full confessions of a successful hooper. You tend to clock off from the detail of a pretty dull life and wait for the next production number. It is here that McKechnie

comes into her own. Old favourites - a Fred Astaire medley (she actually danced with the man in his Californian style) and snippets of Doris Day and Debbie Reynolds - are alternated with some of those rare stage songs that only true theatricals know and love. Some, like "Turkey Lurkey Time", have never been given a public airing before: all convey the frenzied unreal glamour of life as a dancer.

McKechnie is re-assuringly vain, with some reason: she still has a cheeky, ingénue face; she probably gives a very censored version of her life. But it is pleasant enough to venture behind the Green Room door and join the love-in between all those who were once, nearly, and may still be, stars, and this stalwart survivor of the species.



Donna McKechnie: hooper with a voice

Thorncroft/Kentish

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CONCERT
De Singel Tel: 32-3-2483800
● Orchestra and Choir of the Nederlandse Bachvereniging; with conductor Jos van Veldhoven, soprano Barbara Schlick, alto Andreas Scholl, tenor Howard Crook, bass Peter Kooy and organ-player Leo van Doeselaar perform J.S. Bach's Unser Mund sei voll Lachens, BWV110, Vereingte Zwelacht, BWV207, Geist und Seele wird verwirret, BWV35, and Ich liebe den Höchsten, BWV174; 8pm; Nov 7

BALTIMORE

EXHIBITION
Baltimore Museum of Art Tel: 1-410-396-6300
● John McLaughlin: Western Modernism/Eastern Thought: this exhibition features some 25 paintings by the American artist John McLaughlin (1898-1976), spanning the years 1946-1975. Main influences on his work were Japanese and Chinese cultures

and the work of Mondrian and Malevich; from Nov 6 to Jan 19

BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester; with conductor Michael Gieseke perform works by Tchaikovsky, Berg and Ravel; 8pm; Nov 7, 8, 9
● Philharmonie & Kammermusikal Tel: 49-30-2614383
● Requiem; by Mozart. Conducted by Georg Dieterich, performed by the Camerata Wannsee; 8pm; Nov 6

BRUSSELS

DANCE
Théâtre Royal de la Monnaie Tel: 32-2-2291200
● A Propos de Shéhérazade: a choreography by Maurice Béjart to music by Ravel and Rimsky-Korsakov, performed by the Béjart Ballet Lausanne; 8pm; Nov 5, 6, 7, 8, 9

COPENHAGEN

OPERA
Det Kongelige Teater Tel: 45-33 69 69 69
● Madame Butterfly; by Puccini. Conducted by Dietrich Bernet, performed by the Royal Danish Opera. Soloists include Nina Pavlovsk, Kaludi Kaludow and Karl Hamroy; 8pm; Nov 7

DUBLIN

CONCERT
National Concert Hall -

Geoltras Náisiúnta Tel: 353-1-6711888
● Orchestra of St. Cecilia; with conductor Geoffrey Spratt and pianist Hugh Tinney perform Mozart's Piano Concerto No.23 in A, K488 and Piano Concerto No.22 in E flat, K482, and J.S. Bach's Sinfonia in D No.4, Op.18; 8pm; Nov 6

FRANKFURT AM MAIN

OPERA
Städtische Bühnen Oper, Ballet, Schauspiel Tel: 49-69-21237444
● Die Lustige Witwe; by Lehár. Conducted by Sylvain Cambreling, performed by the Oper Frankfurt. Soloists include Bodo Schwanbeck, Pia-Marie Nilsson and Patrik Rafferty; 7.30pm; Nov 6, 8

HELSINKI

OPERA
Opera House Tel: 358-9-403021
● Il Barbiere di Siviglia; by Rossini. Conducted by Kari Tikka and performed by the Finnish Opera. Soloists include Kias Hedlund, Jukka Rönkä and Riihka Hakola; 7.30pm; Nov 7

LAUSANNE

CONCERT
Théâtre de Beaulieu Tel: 41-21-6432211
● Orchestre de la Suisse Romande; with conductor Armin Jordan, soprano Philis Bryn-Julson, contralto Jadwiga Rappé and the Chœurs de

Chambre Romand et Pro Arts de Lausanne perform works by Berg and Brahms; 8.30pm; Nov 7

MADRID

CONCERT
Fundación Juan March Tel: 34-1-4354240
● Hemera Quartet; with violinist Juan Llinas, viola-player Paul Cortese, cellist Rafael Ramos and pianist Eugenia Gabrieluk, perform Chausson's Trio for Piano, Violin and Cello in G minor, Op.3 and Quartet for Piano and String, Op.30; 7.30pm; Nov 6

DANCE
Teatro Albéniz Tel: 34-1-5219988
● Gelabert-Azopardo Company; perform Cesc Gelabert's Armand Dust 2 to music by Linton and Sed to music by Kriskke and Gelabert; 8.30pm; Nov 7, 8, 9

NEW YORK

CONCERT
International Center of Photography Tel: 1-212-860-1777
● All Zones Off Peak: Photographs of Liverpool by Tom Wood; for over fifteen years, Wood has photographed the people and scenes on his daily bus commute to Writal College where he is a photography teacher; from Nov 8 to Feb 9

OPERA
New York State Theater Tel: 1-212-875-5570
● Les Contes d'Hoffmann; by Offenbach. Conducted by Robert

Duerr, performed by the New York City Opera. Soloists include Olga Makrina, Patricia Johnson and Allan Glassman; 8pm; Nov 7

NICE

EXHIBITION
Musée Matisse Tel: 33-93 53 40 53
● Trois œuvres à l'étude: exhibition focusing on three works by Henri Matisse from the museum's collection: "Le serf" (1900-1903), "Fauteuil rocaille" (1947) and "Le plateau" (1952); from Nov 6 to Jan 8

PARIS

EXHIBITION
Galerie Nationale du Jeu de Paume Tel: 33-1 47 03 12 50
● Jean-Marie Bustamante: Lent Retour: exhibition featuring a series of photographs and sculptures created by Jean-Marie Bustamante in the period 1988-1996; to Dec 1
Institut Néerlandais Tel: 33-1-53 59 12 40
● Ed van der Elsken, entre films et photos: exhibition devoted to the work of the Dutch photographer and filmmaker Ed van der Elsken (1925-1990); from Nov 6 to Dec 8

SAN FRANCISCO

OPERA
Bill Graham Civic Auditorium Tel: 1-415-861-4008
● Carmen; by Bizet. Conducted by Donald Runnicles, performed

by the San Francisco Opera; 7.30pm; Nov 8

STOCKHOLM

EXHIBITION
Nationalmuseum Tel: 46-8-6984250
● Reternity: exhibition combining artist Torbjörn Lenk's private collection of design objects with works by seven young artists reviewing the objects in their own fashion, featuring design objects from 1915 to 1975, including radio sets, vacuum cleaners, typewriters, food processors, lamps, chairs and other objects; from Nov 6 to Mar 2

SYDNEY

DANCE
Drama Theatre, Opera Theatre, Playhouse Tel: 61-2-250-7127
● Australian Ballet; perform Stephen Page's Alchemy to music by Page, Stanton Welch's Red Earth and Meryl Tankard's The Deep End; 7.30pm; Nov 6

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Klangforum Wien; with conductor Zoltan Nagy and pianist Marino Formenti perform works by Murail, Kubo and Furrer; 7.30pm; Nov 6

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Philip Stephens

In a tight spot

Politics demands tax cuts in the Budget but the chancellor has little room to manoeuvre and any reductions will be modest

A week or two before last November's Budget Kenneth Clarke intended to reduce capital gains tax. The British chancellor's plan, which by then had been factored into the Budget arithmetic, was to align the exchequer's charge on capital gains with the 24p basic rate of income tax.

John Major was delighted. For reasons I have yet to fathom, he has made the abolition of capital gains and inheritance taxes a guiding ambition of his premiership. But, just as the chancellor was preparing to make a downpayment on this pledge, a clever Treasury official spotted it all.

As the story is told in Whitehall, the official applied the "Cedric Brown test" to Mr Clarke's proposal. A few simple sums showed that the abolition of the higher 40p tax rate for capital gains would deliver a handsome windfall to the then chief executive of British Gas. Mr Brown's lucrative share options promised him one-off gains of £300,000. The chancellor would be giving him an extra 16p for every pound.

This was at a time when the so-called fat cats running the country's privatised utilities were big news. Mr Brown had been called the most hated man in Britain. Mr Clarke was advised to think ahead to the headlines on the day after the Budget: "Ken fills Cedric's trough". Ouch. Mr Major was appraised of the risk. The plan was dropped.

We know, however, that the prime minister would still like to get rid of the tax. He said so in the Commons only last week. Somewhat to my surprise, Mr Clarke made the same explicit pledge in his speech to the Conservative party conference in October.

In the meantime, to the dismay of another famous Mr Brown (Gordon, the shadow chancellor) Cedric has retired. One assumes he

has cashed in his options and paid his dues at the 40p rate. So as he puts the finishing touches to this month's Budget, Mr Clarke might be tempted to revisit capital gains. Somehow, though, I doubt it.

The chancellor's favourite mantra is that good politics and good economics are indivisible. Most of the time he means it. Most of the time he knows now about the precarious state of the nation's public finances, he would not have cut taxes by more than £3bn last November.

Really good economics would demand that he make up for that mistake by, at the very least, ruling out any further reductions in this month's Budget. The acceleration in economic growth has made the Treasury's public borrowing forecasts look rather better than in its summer forecast. But a deficit of 3 per cent of national income at this point in the economic upturn is too high.

By and large, the chancellor has been right to dismiss the judgments of official advisers who see the suppression of inflation as the sole objective of economic management. Too many of those officials are still intent on fighting the battles of the late 1980s. But

The chancellor has been obliged to see off some of the wackier Budget ideas produced by the prime minister's Downing Street policy unit

there is nothing inconsistent in combining a pro-growth strategy with a tighter rein on fiscal policy. As the fortunes of president Bill Clinton remind us, rather the reverse.

But politics, of course, demands some tax cuts. The consensus in his party is that Mr Clarke must make a Budget downpayment if tax is to be the bait which lures disgruntled Tories back into the fold at the election. At issue is how much is offered in advance and how much can be promised for later.

The answer to both questions is the same: not much. Sometimes the chancellor is his own worst enemy. Last year he let expectations run rampant, so a 1p cut in the basic rate of income tax was a disappointment. This year he has been rather naive, acknowledging a determined effort to lower expectations. The result: most people suspect he will spring a generous surprise. I do not.

Last week's quarter-point rise in interest rates was not calculated to provide the springboard for a giveaway Budget. When Mr Clarke defied the Bank of England (and his own officials) in June to cut rates by the same amount, his concern had been to push up the economy's growth rate to about 3 per cent. That has happened, so he saw no reason to prolong his confrontation with the Bank.

Nor has there been any sign yet of the prime minister demanding large tax reductions. The present political paralysis in Whitehall has in effect left Mr Clarke in sole charge of economic policy and Michael Howard, the home secretary, running domestic affairs. The chancellor has been obliged to see off some of the wackier Budget ideas produced by Mr Major's Downing Street policy unit. But, more than once, the prime minister has sided with the Treasury rather

than with his own advisers.

The public spending negotiations have been unusually difficult. Mr Clarke has run out of easy savings. Mr Major meanwhile is still more concerned that a funding crisis in the health service or in schools could derail his last remaining hopes of political recovery. The chancellor considers that preserving a decent welfare state and hitting the Conservatives' eventual goal of a 20p basic rate of income tax would be demanding enough even during the lifetime of the next parliament.

That is too optimistic. It will require a miracle for any government to meet the latest spending targets. In any event, I do not expect Mr Clarke to be so brazen as to combine them with a firm, medium-term programme of tax reductions.

Perhaps I am too trusting in Mr Clarke, but this leads me to conclude that any net tax cuts will be on the low side of expectations, perhaps well under £2bn. Of course, he can find some money elsewhere to pay for lower income taxes. The present tax concessions on profit-related pay are one of several obvious targets.

This hardly leaves room for reduced capital gains tax. As it happens there are economic arguments for and against such a move. It would be a step towards a level playing field in the treatment of savings. It cannot, though, be a priority. And neither chancellor nor prime minister seem to understand that the same economic arguments demand the retention of inheritance, or some other capital transfer, tax.

Good politics and good economics both argue for any tax cuts to be concentrated on those with the lowest incomes. Should Mr Clarke be tempted otherwise, a gentle warning. There are plenty more Cedric Browns out there.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "fax"). e-mail: letters.editor@ft.com. Published letters are also available on the FT web site, <http://www.ft.com>. Translations may be available for letters written in the main international languages.

Shell already leading player in debate on multinationals' role

From Mr John S. Jennings

Sir, Anita Roddick's letter (October 31) raises a number of significant issues not only for Shell, but all multinational corporations. At the heart of the matter is the need for a debate about substance rather than public positioning statements. In this debate Shell is already playing a leading role.

Let me first deal with the current situation facing Shell in Nigeria. Shell has been producing oil in Nigeria for more than 40 years but only lately has it been subjected to a sustained campaign of exaggerated criticism to discredit its role there. In particular, the company has been accused of causing major environmental devastation in the Delta region, an accusation which the evidence of international journalists who have toured the region in the last few months indicates is false.

In fact, Shell is committed to a continuing programme of environmental and social investments. For the past five years the company has been spending on average in excess of \$100m a year on environmental improvements. And as long as Shell has been producing oil, it has been investing in the region's social infrastructure, currently spending more than \$20m a year on

agricultural assistance, schools, hospitals and so on.

This week marks the anniversary of the execution of Ken Saro-Wiwa. Shell did all in its power to secure clemency for him although in the end the company does not have the mandate or moral right to interfere with the due process of law in Nigeria or anywhere else. In the case of the Ogoni 18, what Shell has done clearly and unambiguously is to call for humane treatment, speedy justice and a trial that is not only fair, but seen to be fair; with early release for the innocent and a measure of clemency for the guilty.

The greatest need in Ogoni now is for a healing of wounds, for the community to come together in good faith. We know that businesses like Shell must play their part and we are meeting and listening to all sectors of the Ogoni leadership. It is early, but there are signs of a broad-based move towards reconciliation, and that must be a prerequisite for peace and economic stability to be restored. Meanwhile, Shell's social investment in Ogoni continues; the company has just announced it is to sponsor a hospital as well as to renovate and re-equip three other health centres.

The letter goes on to question if "things are changing

at Shell". Yes, I can tell you they are. Shell has already undergone a major structural reorganisation to help it build on the commercial success of the past. Shell has also just completed an important global exercise in listening to people from both inside and outside the company; 14 round-table conferences with more than 300 people from 53 countries engaged in a dialogue about society's changing expectations of multinationals. This is not a PR exercise but rather a transparent attempt to find out what people really want from all big corporations, not just Shell.

I am not pretending it is easy to satisfy the often conflicting expectations which people have of major companies; in fact it must not be left solely to the multinationals to square this particular circle. Rather, a central plank in the dialogue in which Shell is involved is for everyone concerned with the role of such companies to participate in finding a way to a resolution.

Anita Roddick asks if Shell is ready to join this debate; we are already in it.

John Jennings, chairman, Shell Transport and Trading Company, Shell Centre, London SE1 7NA, UK

Crucial vote for management school

From Sir Bruce MacPhail

Sir, Today Oxford University votes on whether to allocate a site in the centre of the city for the construction of a new Business School. The proposed building will be an impressive addition to Oxford's architecture.

In 1990, Congregation approved the institution of a sub-faculty of management studies. The campaign for Oxford set a target of £40m and Wafic Said's generous benefaction of £20m will give the school a building to match the best in the world — provided a suitable site is found close to the centre of the university. This stipulation is not out of vanity but because Oxford aims for a model of management education which is integrated with other relevant faculties — unlike institutions such as Harvard, London or Insead.

Oxford aims to establish a centre of management excellence which will attract high calibre students from across the world as potential business leaders of the next generation. It is to be hoped that as Oxford, and even Cambridge, wholeheartedly develop their business schools, more of our brightest students will perceive a career in business as a respectable intellectual challenge, and thereby increase the quality of our national management resources.

To lose a greenfield site from the centre of Oxford is no small thing. However, this site was only selected after an exhaustive search revealed nothing else suitable. Thus, Congregation must balance the regrettable loss of an open space with the disastrous effect a negative vote would have on the excellent prospects for management studies and on the attitude of other possible university benefactors.

I shall go to Congregation today and urge other members to do the same, so the university can show wholehearted support for management studies.

Bruce MacPhail, chairman of the council, School of Management Studies, University of Oxford, UK

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Robert Corzine on the innovative proposals for Brent Spar

A platform for ideas

Brent Spar, the obsolete oil storage platform at the centre of last year's bitter tug of war between Shell and Greenpeace, has become an icon for the international environmental movement. It has also become a bit of a cottage industry.

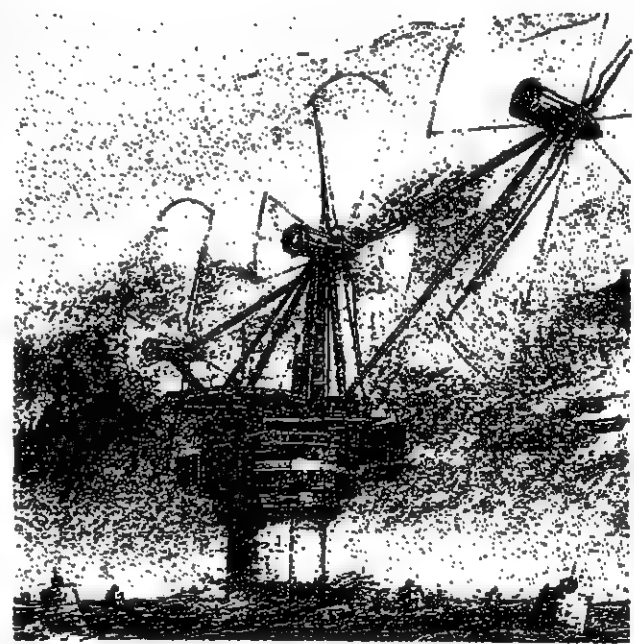
On Friday a diverse group, representing a range of interests from academia to professional oil industry bodies and consumer and environmental groups, met in London to debate the latest proposals to dispose of the Brent Spar.

The meeting was organised by the Anglo-Dutch oil group and the Environment Council, an independent charity. Shell says the "balanced group of participants" helped it "gain insights into many views and values" surrounding the controversy over the platform.

In the 15 months since the company dropped its controversial plan to dump the Brent Spar in the deep water of the Atlantic Ocean, the platform has been moved to a sheltered Norwegian fjord far from the limelight. But an extensive public relations and consultation campaign by Shell in the UK and the rest of Europe has kept the issue of the Brent Spar and its future in front of the public.

The company unveiled 30 different disposal schemes put forward by 19 leading European offshore contractors and consortia during the summer. It hopes to complete a shortlist of six new disposal options by the turn of the year.

Many of the proposals were variations on a theme of cutting up the Spar and disposing of the sections onshore, either by recycling the steel or by placing it in a landfill site. Such solutions were in line with Greenpeace's demand that all North Sea structures, with just a few exceptions, be removed entirely and taken ashore for disposal.



Wind of change: the plan for an eco-friendly power station

But a number of proposals were more innovative. Several suggested a dismantled and cleaned-up Spar would be suitable raw material for building an artificial reef or causeway. Others envisaged refurbishment and a new life for the structure.

One proposal was to turn Brent Spar into an "eco-friendly" floating power station off Scotland. A Dutch consortium said the top portion could be equipped with three 3MW windmills, with additional wave power units surrounding the platform.

Thyssen, the German engineering group, believes it could serve as a wind-powered desalination plant to produce fresh water. Other contractors put forward plans to use it as a training or forward base for the offshore industry.

The range of innovative options has impressed the UK government, which had approved the deep-sea dumping scheme and was surprised and angered when Shell backed down. "Perhaps Greenpeace was right when

they said that Shell hadn't examined all of the possibilities," says one official.

Shell's apparent determination to look at all possible options for the Brent Spar has even impressed some Greenpeace campaigners, including those from Germany, where protests last year turned violent.

But there is some scepticism inside Shell about the extent to which last year's lessons have been heeded. Some staff in continental Europe believe there is support among UK counterparts for sticking to the original deep sea disposal plan.

Officials in London admit there has been "massive debate" inside the British company over the Brent Spar. But they deny that any "recalcitrants" in their ranks pose a problem. "There is no fifth column operating inside the company trying to undermine what we are trying to achieve," says Mr Alan Goldsmith, a senior executive at Shell UK.

The corporate debate

Lithuania policies will not aid stability

From Prof Steve H. Hanke

Sir, Prof Val Samonis concludes (Letters, November 1) that the recent victory of the "non-communists" in Lithuania bodes well for that country's economy and investment prospects. Alas, his assessment is unfounded because it is based on two false assertions.

Prof Samonis claims that the "non-communist" parties have a history of fiscal prudence. This is inaccurate. Indeed, these parties have had a history of proposing fiscally irresponsible schemes. For example, their most ludicrous proposal would have retroactively indexed savings accounts. This would have required a 100-fold increase in the value of these accounts and would have forced Lithuania into bankruptcy. Fortunately this nutty idea was defeated in an August 1994 referendum.

Prof Samonis also asserts that the battle against inflation can best be won by abandoning Lithuania's currency board-like system and replacing it with a classical central bank, armed with discretionary monetary policies. This echoes the "non-communists' bizarre slogan.

As a former Lithuania state counsellor, I can attest to the fact that the primary motivation behind the "ex-communists' introduction of the currency board-like system on April 1 1994 was to establish stability by putting a stop to the monetary and fiscal shenanigans that threatened Lithuania. And, according to the International Monetary Fund, the system has done just that. Contrary to Prof Samonis's assertion, the embrace of discretionary monetary policies will not promote stability. In every country that has abandoned a currency board in favour of a central bank, instability has followed.

Steve H. Hanke, professor of applied economics, The Johns Hopkins University, Baltimore, Maryland 21218-2886, US

Secondary boycotts: squeeze plays that hurt everyone

By and large, America and its allies share a common view of what constitutes acceptable international behavior. Most would condemn countries that sponsor or support terrorism. Many share a common concern over the spread of nuclear arms. And still others support efforts to hasten economic and political reform in certain countries. Where partners and allies often disagree is how best to achieve these goals—to effect a change in the behavior of another country.

Economic sanctions are favored weapons that signal displeasure with errant behavior. Their use dates back to early Greece. In this century, sanctions have been used as a substitute for military action or to handicap the economic capability of the target nation. President Woodrow Wilson praised their ability to bring "pressure [that] no modern nation could resist." The League of Nations deployed them with weak results. Since 1941, America—either unilaterally or in concert with others—has invoked sanctions more than 70 times. Despite their popularity, their success has largely been limited.

As a result, nations sometimes seek to tighten their economic grip by imposing secondary boycotts which, in effect, extend the reach of law into the affairs of another country. The U.S. government recently has taken steps that would punish overseas companies that do business with "targeted" countries. The use of this gambit—some would call it a squeeze play—has irked America's friends and provoked talk of trade retaliation. The potential economic harm it could inflict on U.S. trading relations may hurt both American business and workers as well as the businesses and workers of its allies.

Reported reaction to such boycotts has ranged from allies stiffening requirements for

vises and work permits to their passing laws to permit countersuits against U.S. companies for damages awarded by U.S. courts and enacting trade sanctions on industries like aviation and telecommunications that are not yet protected by the World Trade Organization. NAFTA partners to the north and south regard such boycotts as interference with their sovereignty. Europeans view America's "bullying" as myopic.

We believe the use of secondary boycotts to achieve foreign policy objectives should be avoided. Editorials in leading newspapers have expressed similar concerns about U.S. actions.

Financial Times (London), July 12, 1996: "Other governments need to remind the U.S. forcefully of a fact that its own legislators appear to have overlooked: it is part of an integrated global economy, on which its own prosperity increasingly depends.... If it persists in playing the lone cowboy, it will invite reprisals against its own commercial interests abroad. Ultimately, it will undermine the rules governing the conduct of international economic and trade relations. Those rules operate to the advantage of all countries. The U.S. is no exception."

The New York Times, July 1, 1996: "...Even when deployed on behalf of an otherwise worthy cause, secondary boycotts offend the sovereignty of America's closest allies, invite retaliation and may violate international trade treaties.... Today's trading patterns involve many countries and to be most effective, economic sanctions need to be applied internationally. But the way to achieve concerted action is by diplomatic persuasion, not by overreaching acts of Congress."

We agree that such steps are the right course to follow.

Mobil

FINANCIAL TIMES

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Second term, warts and all

Despite a last-minute narrowing of his opinion poll lead, it is still probable that by tomorrow Mr Bill Clinton will be the fifth and last American this century to have won two presidential elections. Does he belong in the company of Roosevelt, Eisenhower and Reagan, who served out their second terms and have entered the pantheon of "great" presidents? Or will he be seen as another Nixon, whose triumphant re-election turned into the ignominy of Watergate?

At present he looks closer to the latter. Or rather, his stature looks much less than Nixon's did at the time of his landslide victory over George McGovern in November 1972. Though he has notched up some creditable achievements, Mr Clinton's first term has hardly been marked by great foreign policy breakthroughs like Nixon's visit to China or the ABM and Salt negotiations with Moscow. Indeed, probably the strongest motive America's allies have for desiring his re-election is his reluctance to repeat, with a new administration, the painfully slow learning process that characterised his first 18 months.

If Mr Clinton resembles Nixon in anything, it is in his vulnerability to scandal. Whitewater, "travelgate", the death of Vincent Foster, the White House's request for FBI files on prominent Republicans, the campaign contributions from Asian businessmen: any or all of these affairs - though in none of them has any presidential guilt been proved - could yet rebound to undermine his second term, especially if he continues to face a Congress controlled by his opponents.

Perhaps, having already survived so much investigation and innuendo, he will be able to break free of the allegations. But to put such concerns convincingly behind him he must in future respond more openly to investigation, and undertake not to thwart the course of justice by presidential pardons.

Economic cycle

If he does win today, Mr Clinton's victory will not be all his own. Few incumbents have been so blessed by the vagaries of the economic cycle, or those of their opponents' campaigns. Mr Alan Greenspan, the chairman of the Federal Reserve, has skillfully piloted the economy to a sixth year of recovery. Output, employment and stock values are well up on their 1993 levels, even if the incomes of most households are not. Most of the middle-income families on whose behalf candidate Clinton campaigned probably do feel better off now than they did four years ago.

Senator Bob Dole was clearly off-target with his claims that the economy was "barely afloat". Even less suited to the campaign trail than early doubters had suggested, he has been ill-placed to reunite a deeply divided and troubled party. That is a pity. There is much in Mr Dole's character and record to recommend him, and it is sad

that he should have betrayed that record (as the public clearly sensed) by offering a demagogic tax cut which the country cannot afford.

Mr Clinton, by contrast, having learnt his lesson with the failure of his healthcare package in 1994, has benefited from the slow disintegration of the Republicans' "Contract with America" through 1995-96. But some fear that once re-elected, and especially if his party regains control of Congress, he will ignore or forget this message and "go back to his bad old ways", with a renewed search for Big Government solutions. Even some who support his re-election hope that Congress will stay Republican to keep these instincts in check.

Senate majority

Such dangers should not be overstated. Even if the Democrats regain control of the House, few believe that Mr Clinton's coat-tails will be long enough to win them a majority in the Senate. Even if they were, history hardly suggests that such a result would open the floodgates to a tide of ultra-liberal legislation. In 1993-94 a Democratic Congress responded to Mr Clinton's leadership by passing a bill to reduce the budget deficit (without a single vote from Republicans), but inflicted the death of a thousand cuts on Mr Clinton's healthcare bill.

The US Constitution was written precisely to ensure that sweeping reforms, in either direction, require more than a mere majority in Congress. They need to be sustained by a deep and broad current of public opinion. Neither Mr Clinton nor Mr Newt Gingrich, leader of the 1994 "Republican revolution" has been able to demonstrate the existence of such a current in the 1990s. The American people are not in a mood for new bold experiments along the lines of the New Deal or Lyndon Johnson's "great society". Nor, however, do they wish to see these past achievements dramatically dismantled.

Mr Clinton seems ready to apply this lesson during his next four years whether or not his congressional colleagues (many of whom he has already deeply alienated) decide to go along. Indeed the danger is that he will do too little rather than too much. This summer he cynically sacrificed the welfare benefits of poor families in order to avoid a battle with the Republican Congress. But he has been equally unwilling to confront the sacred cows of his own party by admitting that both social security and Medicare are in need of radical reform. The same applies to education and campaign finance.

The voters are contradictory in demanding a response to these pressing issues, while also, it seems, wishing to see things remain as they are. Mr Clinton reflects these contradictions but can sometimes push the debate in the right direction. That is the best justification for his re-election.

Risk and reward

In the forest of UK financial regulation, something is stirring. In the past, financial service companies have been regulated according to the degree of risk in their business. The idea is that the burden should depend on their skill at managing risk: that regulation should be not generic, but specific to the business.

That carries a second idea in its train. If regulators are to trust a company's risk controls, they must rely on top management to enforce them. If it then suffers a disaster which costs investors money, top managers must be personally punished.

These ideas, set out by the head of the Securities and Investments Board last week, are being thrown open to debate. Early next year, SIB will produce a discussion paper. So what are the pros and cons?

First, it is right in principle to minimise the cost of regulation, if only because it is carried in the long run by investors. In the post-Barrings era, any business will aim to ensure it does not have a Leeson in its midst. If it can show that its internal controls are effective, there seems little point in replicating that effort in the form of regulatory paperwork. Nor should such companies be loaded with extra capital requirements, regulatory fees and so forth.

There are arguments the other way. It is not clear that a

more subjective system would have coped better with Barrings. Indeed, it would have taken a bold regulator to crack down on such a venerable institution on the basis of personal judgment. In such cases, a more mechanistic system, with alarm bells and lights flashing, might be more reliable.

It could also be argued that a subjective system would favour big companies which can afford elaborate risk control procedures. This is a more open question. It could equally be argued that a big company, being more complex, would find it harder to prove to the regulator that its systems were under control.

As for penalising individuals, the principle is also to be welcomed. Imposing fines on companies for losing investors' money carries the risk that investors themselves will pay the bill. Besides, finding giant corporations the odd million here or there carries an uncertain message to the market.

The problems are equally obvious. For regulators to condemn individuals without legal process smacks of the Star Chamber. Errors of omission, moreover, are notoriously hard to prove.

But all that is detail. The basic principles deserve support: that investors should pay less for their own protection, and that prudence in practitioners should be rewarded.

Big Five adjust the volume

After years of growth, the record industry is beset by static sales and falling prices, writes Alice Rawsthorn

This is a great time to buy records in the US. Music shops are plastered with bargain stickers, and discount stores are selling popular albums as little as \$8.99 (\$5.50).

Good news for consumers, but not for the music industry. After several years of double-digit growth, it faces static sales worldwide in 1996. PolyGram, one of the world's largest record companies, recently issued a profits warning and announced 400 job losses. Warner Music, its arch-rival, is also shedding staff.

The critical question for the music industry is how long its difficulties will last. A prolonged slowdown could pose serious financial problems for the entertainment groups that dominate the global music market. Many are counting on a strong performance from their record labels to finance expansion in other sectors. "Market conditions are very uncertain, very shaky," says Mr Tommy Mottola, president of Sony Music Entertainment. "There's a lot of nervousness right now, as people are figuring out what to do."

Record companies have been here before. Music has historically been a cyclical business, which waxes and wanes with economic confidence. But over the past decade record sales have been buoyed by consumers replacing their favourite vinyl albums with compact discs, and by the emergence of new markets in Asia and latterly Latin America.

Global retail sales soared from \$14bn in 1986 to \$40bn in 1995, according to the International Federation of the Phonographic Industry, which represents the world's record companies. The industry also benefited from significant growth in income from music publishing, the secretive, but highly profitable business of

licensing the rights to broadcast or perform music.

Such spectacular growth encouraged the "Big Five" companies which command 70 per cent of global music sales - PolyGram of the Netherlands, Japan's Sony, Warner of the US, the UK's EMI and Germany's Bertelsmann - to expand. They have opened new international operations, treated executives to multi-million dollar packages and wooed stars with Hollywood-style contracts. EMI paid Mr Jim Ffield, its chief executive, a \$7.4m package last year, and clinched an unprecedented \$70m record deal with Janet Jackson, the US pop singer.

"When times are good, record companies spend money, just like Hollywood studios," says Mr Jay Berman, chairman of the Recording Industry Association of America. "It's the nature of the industry."

The first warning that conditions were changing came last year when sales stalled in the US, the world's largest music market. The principal problem was the instability of the retail sector, which has been locked in a vicious cycle of price cutting since Circuit City and Best Buy, the discount electronics chains, started selling cheap CDs. Other discounters, including Wal-Mart, have followed suit.

Record stores are unable to compete against the discounters, many of which treat CDs as loss-leaders, selling Top 20 albums for under \$9, against a wholesale price of more than \$10. The US association estimates that 1,000 record shops have closed since early last year. Several chains, including Record Giant, have filed for Chapter 11 bankruptcy protection, and the industry is now terrified that Musicland, which accounts for almost a tenth of sales, may also be forced to file.

Even if Musicland survives, Mr Berman suspects the disruption will continue for six months until the market stabilises. After that, he says, the industry must accept cut-price Top 20 CDs as "part of the landscape".

Unfortunately for the US labels, at the same time as discounting has destabilised the Top 20, sales of catalogue, or old albums, have fallen. Most consumers have now completed the process of replacing their vinyl record collections with CDs.

Labels have since placed greater emphasis on new releases. Competition for established stars has intensified, culminating in the \$80m deal Warner signed this summer with R.E.M., the US rock group.

And there is now a race to sign new stars. The Fugees, a Sony hip-hop act, has sold 10m copies worldwide of its debut album released this spring. Alanis Morissette, the Canadian singer on Warner, has sold 10m of hers.

But there is concern that the market has become so hit-oriented that labels are too quick to stop promoting releases if sales falter. For every Celine Dion, Sony's French-Canadian singer who has had two successful English-language albums, there is a one-hit wonder like Hootie & the Blowfish, the Warner group. Its debut album was 1995's US best-seller with sales of 7m, but the band sold 2m copies of this year's follow-up.

"Everyone gets excited about successful first albums, but often don't work hard enough on the second and third," says Mr Clive Davis, president of Arista, the Bertelsmann label. "There isn't enough long-term thinking."

Despite the severity of the problems in the US, the industry had such strong growth in other countries last year that global sales rose 10 per cent. The UK was buoyed by the popularity of



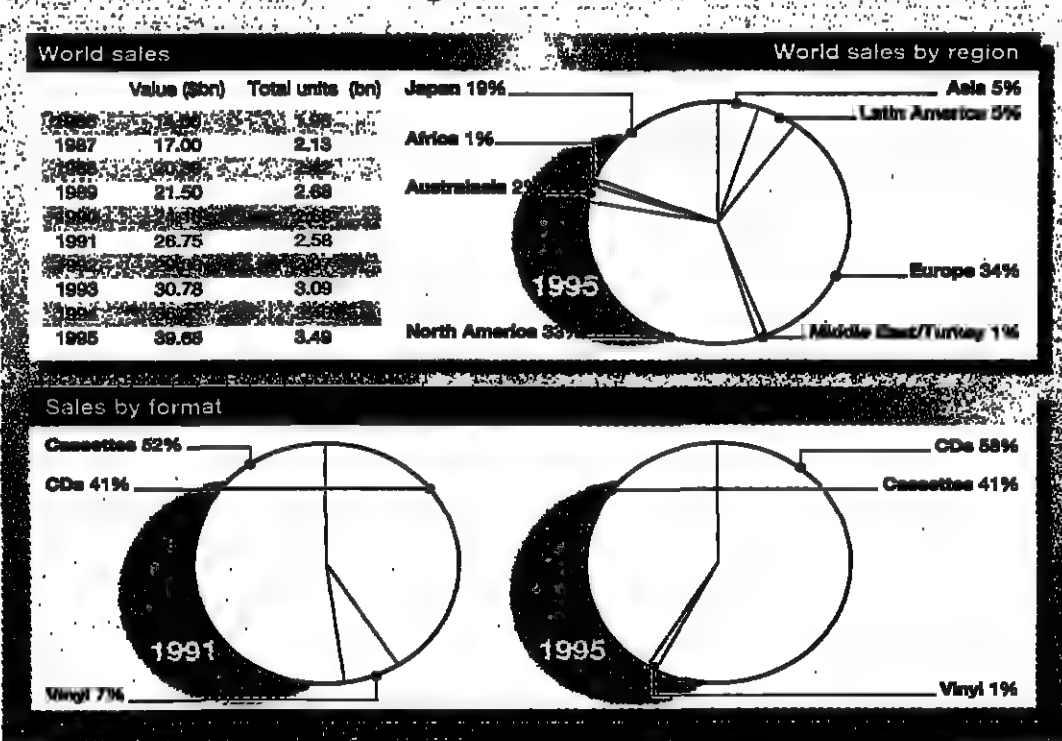
Britpop acts Oasis and Pulp. Asian markets, including Hong Kong, Malaysia and the Philippines, experienced double-digit growth reflecting economic buoyancy and reduced piracy.

But this year the slowdown has spread to other countries. Catalogue sales have fallen in some established markets. Canada, France, Italy, Sweden and the Netherlands experienced real declines in first half sales. Emerging Asian markets also faltered, with sales slowing in Hong Kong, Singapore, South Korea and Thailand, as piracy rose again. The global market mustered negligible growth of 0.5 per cent at retail in the first half, according to the international federation, which means it fell in real terms.

One consolation is that sales have stalled at a high level. Another is that music publishing is still buoyant, and its future prospects appear excellent. More television and radio stations are coming on stream, keen to license the right to play music, and the fees for selling copyrights for films and advertisements are escalating. Sony last week signed a multi-million pound publishing deal with Noel Gallagher, Oasis's songwriter.

Even so, the slowdown in record sales has come at a difficult time from a corporate perspective. PolyGram, which has ploughed \$800m of profits from its music interests into a film division that has yet to break even, has seen its shares fall in the fortnight since its profits warning. Shares in EMI, the sole music specialist among the "Big Five", have slipped too, renewing speculation that it may be prey to a bid if they weaken further. Sony is anxious to sustain its profits growth from music, at a

Recorded music: sounding a flat note?



OBSERVER

Salaries on the line

As the salary of the British Telecom chief executive, Sir Peter Brabeck-Letford, is set to rise to £1.2m, it is worth asking whether the pay of top executives is justified. The answer, it seems, is no. The average salary of a top executive in the UK is £1.2m, but the average salary of a top executive in the US is £1.5m. This is a significant difference, especially when you consider that the US has a much larger economy and a much higher cost of living.

Already, the top brass on both sides have made it clear that one of the world's most significant telecommunications companies will require a salary package that is not only competitive but also reflects the company's performance. The answer, it seems, is no. The average salary of a top executive in the UK is £1.2m, but the average salary of a top executive in the US is £1.5m. This is a significant difference, especially when you consider that the US has a much larger economy and a much higher cost of living.

It's less than two years since Sir Peter Brabeck-Letford was moved, unexpectedly, to the role of chief executive of the telecommunications company. His salary package, however, was not. The average salary of a top executive in the UK is £1.2m, but the average salary of a top executive in the US is £1.5m. This is a significant difference, especially when you consider that the US has a much larger economy and a much higher cost of living.

Bert Roberts at MCI. "Roberts' basic salary - the equivalent of \$64,000 - is only \$100,000 more than Vodafone's," says MCI boss. "It's a different league. Last year, Roberts picked up almost £1m in extras, leaving Vodafone out of sight. As for Sir Peter Brabeck-Letford, yesterday busy talking everybody else's salary, he'll be running the show. His salary package looks like it's connected at £100,000. BT were supposed to talk - and no price was agreed. What's on the cards?"

Dotty doggy

Walt Disney has stepped in something nasty out in the desert. The sparsely populated area above Los Angeles, where the visual glories of the hills are marred only by the word Hollywood, split out in a livid white sheet of letters.

His polite request to cover the wacky sign with giant black spots - in a stunt to push its live-action version of the movie 101 Dalmatians - has outraged locals, who have had enough. "Historic Cultural Monument #11, as it is formally known, was last desecrated during the 1982 election race, when it was changed to read 'Perotwood' on behalf of the persistent presidential no-hoper. Its most memorable altered state dates

back to 1987, when it briefly became 'Edwards Cohan, a local homemaker's spokesman, wants to draw the line. The sign is as important to Hollywood as the Eiffel Tower or Big Ben are to Paris and London,' he says.

This not entirely helpful remark - which should put European city authorities on guard against similarly dotty ideas from Disney - appeared in a letter to local officials mulling the request.

The company, which has promised to ship in security forces to keep trippers and media lions away from the sign, has said it is not going to press the issue if the howls grow too loud. Cohan is working on that. "One would hope Los Angeles would finally get a little bit of class."

Counted out. While most news organisations have long since scaled down their coverage of the most boring US presidential election in living memory, the BBC is busy putting the mass back in mass media. At the last count, 74 corporation staff had checked into Washington hotels

as part of the mission to explain the result to a tiny British television and radio audience of political junkies and insomniacs. Let's hope the costly exercise doesn't end in the same farce that occurred in 1992, when a computer glitch had an astonished Peter Snow announcing that Ross Perot was sweeping the country in the most stunning upset in electoral history. If the Beeb had only employed a few hundred more producers, it could have counted the votes more accurately by hand.

Frequent breather

Blushes all round at Deutsche Telekom after a sex pest managed to jam the E-mail facility of its T-Online service over the weekend.

Telekom, which has been bombarding the German public with information about its forthcoming share issue, found the boob was on the other foot after 3.4m messages offering services of dubious morality were sent as unsolicited E-mails to online clients. The attack meant many customers were deprived of access to their electronic mail boxes from Friday until noon yesterday. But the meltdown reflected not so much the steamy content of the ads as the fact that 90 per cent were incorrectly addressed.

Financial Times

100 years ago

Chino-Japanese Treaty. Peking, 4th Nov. The Japanese Minister, M. Hayashi, left here yesterday. The Chinese Government has conferred decorations upon him and several members of the Japanese legation. At midnight on 19th October, the Japanese ultimatum, demanding the conclusion of the treaty of commerce in the treaty of Shimoda, expired. The Tsung-li-Yamen becoming alarmed at the expiration of the ultimatum without a settlement having been arrived at, the Minister Chang immediately proceeded to the Palace for the purpose of consulting the Emperor, with the result that the Chinese Government immediately acceded to the Japanese demands.

50 years ago

Republican Victory Forecast. Washington, 4th Nov. A Republican victory was forecast tonight on the eve of the Congressional elections in which an estimated 35,000,000 voters will elect to-morrow an entirely new House of Representatives and a third of the Senate. Final figures of a Gallup poll show that 58 per cent of those questioned preferred Republican Congressmen and 43 per cent Democrats.

Clinton heads for win in US presidential poll

By Jurek Martin in Washington

The US presidential contenders yesterday made their final pitches to the American public, at the end of a campaign that seems certain to send President Bill Clinton back to the White House.

The main election suspense concerned control of Congress, with Republicans remaining guardedly optimistic that they would preserve majorities in both houses and thus act as a counterbalance to Mr Clinton over the next four years.

Voter turn-out may prove pivotal in many close congressional races. Nationwide, there are nearly 149m registered voters, up from 134m four years ago. But most experts doubt that participation will much exceed 50 per cent, down from more than 65 per cent in 1992.

Mr Clinton, recognising the risk of many voters staying at home, has consistently sought to address potential voter apathy in his climactic campaign round.

This took him back yesterday morning to New Hampshire, thus redeeming his promise of four years ago when the state handed him a decisive primary victory. He was due to arrive in his native Arkansas in the small hours of this morning.

"Are we going to finish the job?" he asked supporters at a New Hampshire rally. "Your vote will decide."

Mr Bob Dole, the incumbent, said he would not be back in the White House.

Cynical voters... Page 4
Editorial Comment... Page 15

ingly hoarse Republican candidate, zigzagged across the country towards the end of a 96-hour non-stop marathon that has at least captured some headlines. "As long as my voice holds out, I will tell the truth," he said in New Mexico.

Mr Ross Perot of the Reform party was blanketing the airwaves with commercials, having reserved more than \$20m from his \$39m allocation of federal funds for this purpose.

According to a clutch of eight final opinion polls, the president was heading either for a landslide victory or for a comfortable one that would nonetheless enable Mr Dole to salvage respectability.

Only four of the eight had Mr Clinton at or above the 50 per cent mark he claims would constitute a clear second term mandate, against the 43 per cent he won in 1992. But only two had Mr Dole touching 40 per cent and none gave Mr Perot double digits.

Their margins ranged from 18 points in the New York Times/CBS survey to 7.5 points in the Reuters news agency poll. Mr Doug Somik, White House political director, put Mr Clinton's advantage at 10-13 points and said "no slip-page" had been detected in the states deemed critical for victory.

A United Nations spokesman, quoted by France's AFP news agency, said Mr Raymond Chretien, the UN special envoy for the central African crisis zone, would leave New York today on a new mediation mission that might start with a visit to Mr Mobutu.

The unilateral declaration by rebels now holding the capital of north and south Kivu province paved the way for the creation of humanitarian corridors to supply food, water and medicine to the refugees. EU foreign ministers are expected to discuss the creation of these corridors at an emergency meeting in Brussels on Thursday.

France yesterday called for urgent consultations among African, European and US foreign ministers on Thursday to discuss ways of stabilising eastern Zaire, with troops if necessary, to enable aid to reach starving refugees.

Mr Hervé de Charette, France's foreign minister, urged the international community to react "immediately" to restore law and order in eastern Zaire. His officials said France was ready to join others in sending troops but wanted to do so under some form of international mandate.

France was criticised by some European and African partners when it intervened by itself in similar circumstances in Rwanda in 1994.

Britain responded cautiously saying that it was seeking more details of the French proposal. Any such initiative "would need to complement" a meeting of regional African leaders, due to take place in Nairobi on Thursday.

Mr Laurent Kabila, spokesman for the rebel movement which launched its offensive a fortnight ago, said the three-week ceasefire would allow the UN High Commissioner for Refugees, Red Cross and other organisations to "evacuate voluntarily the refugees to their country of origin".

Rebels call ceasefire to free 1m Hutu refugees

By Michaela Wrong in Gisenyi, Rwanda, and David Buchan in Paris

Tutsi-led rebels who have seized control of east Zaire from the national army yesterday declared a ceasefire to allow more than 1m Hutu refugees, trapped in the region by fighting, to return to Burundi and Rwanda.

As international efforts to resolve the crisis intensified yesterday, Zaire's President Mobutu Sese Sese fled from Geneva, where he has been undergoing treatment for prostate cancer, to Nice, where he has a villa. He has made no public declarations since the situation began to deteriorate.

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Atlantic arbitrage

On the face of it, the planned BT/MCI merger offers a fantastic arbitrage opportunity. Buying MCI shares is a cheap way of getting exposure to BT. BT shareholders could probably profit by selling their shares and buying MCI ones instead.

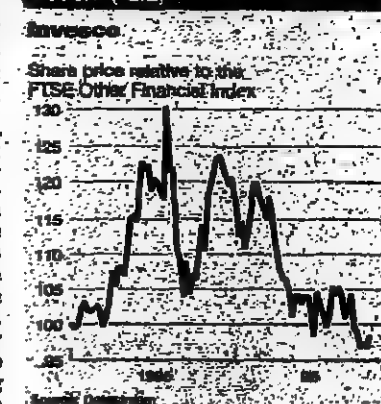
This is how the maths work. If the deal goes through, each MCI share will be swapped for \$5 cash and 5.4 BT shares. Subtract \$5 from the cost of an MCI share and one can in effect buy 5.4 new BT shares for less than \$25 - roughly 280p a share. New BT shares are not worth as much as current BT shares, because they will not enjoy either the 35p special dividend or the 20p ordinary one. But after subtracting 55p from the current BT share price, the notional price of an ex-dividend BT share is still 318p - 14 per cent more than the cost of buying them via MCI.

There are two possible reasons why this gap has not closed. First, the smart money may be factoring in the risk that the deal will be blocked, in which case MCI's shares would sink whereas BT's would hold up. There is probably some truth in this, but it is unlikely to explain such a wide gap given that most commentators think the deal will be cleared. Secondly, financial markets are not perfectly efficient. While professional arbitrageurs have certainly spotted the opportunity, the sheer weight of money from BT investors who like the deal and MCI shareholders who are taking profits could be drowning them out. If so, there is still time for others to exploit the anomaly.

THE LEX COLUMN

Atlantic arbitrage

FTSE Eurotrack 200: 1803.7 (-2.2)



But since risks also rise, shareholders demand a higher return in compensation. According to the famous Modigliani/Miller hypothesis, the effects cancel one another out.

Modigliani/Miller is fine in theory. But, in practice, there are two factors which still often make gearing up an attractive proposition. First, replacing equity with debt has tax advantages, because interest is tax deductible. Second, a company is less likely to waste capital if it is on a tight leash than if it has cash sloshing around. This point, of course, cuts both ways: a highly-indebted company is less able to grasp opportunities than a debt-free one. That only goes to show that the optimal debt level depends on how many good opportunities a company has within its reach.

Invesco

Strategically, it is difficult to fault the logic of the \$1.6bn merger between fund managers Invesco and AIM. Synergy is an overworked term, but in this case it is appropriate. AIM has a strong US retail presence, a developed distribution network, and a growth style of investment. Invesco has a good institutional client base, a value investment philosophy, and strength in the fast growing market for so-called 401(k) personal pension plans. Together, the two companies have the product diversity and market reach neither could have achieved alone without considerable time and expense.

Invesco has not got AIM on the cheap. It has paid a price equivalent to 2.5 per cent of assets under management, towards the top end of other similar deals. But it is buying

a business with an exceptional record: funds under management have grown at a compound 35 per cent a year over the past 3½ years. Moreover, longer term prospects are good, with individuals increasingly putting long-term savings into shares and bonds.

The risk is that Invesco could be buying at the top of the market; if Wall Street crashes, the deal will look very expensive. But given the growth prospects for the fund management industry, the shares look attractive. A price/earnings ratio of around 13 times prospective 1996 earnings is well below the weighted average of 16.3 for UK fund managers, while their US peers trade on multiples in the high teens.

Rhône-Poulenc

Rhône-Poulenc's decision to rule out a demerger of its chemicals and healthcare businesses looks antediluvian. Its rivals, from Imperial Chemical Industries and Hoechst to Ciba and Sandoz, have either announced or carried out such a split and unlocked huge value for their shareholders.

There is hidden value in the French group as well. Most of its pharmaceutical interests are held through Rhône-Poulenc Rorer, its 68 per cent-owned US arm. At current prices that is worth FF100 of Rhône-Poulenc's FF150 share price. This leaves the rump trading on a bulk chemicals valuation of 0.6 times enterprise value to 1996 turnover, similar to BASF. Yet 40 per cent of that rump by sales and 85 per cent by profits comes from high-margin life sciences businesses. Mr Jean-René Fourtou, Rhône-Poulenc's chairman, argues the group's share price will rise to reflect this in time. That sounds complacent. The market did not value either ICI's or Hoechst's drugs businesses properly while they remained buried in a bigger group.

Mr Fourtou is anyway in danger of approaching the problem from the wrong side. Instead of demerging pharmaceuticals, he should sell the chemicals businesses. In their current poor state they might fetch only 0.5 times sales - say FF180n - but that would still make inroads into the group's heavy debt and leave a pure life sciences group, similar to Zeneca or Novartis, which would deserve a much higher rating.

Additional Lex comment on ABF, Page 24

Airbus order book lifted by \$2bn Emirates deal

By Michael Skipinker in London and Robin Allen in Abu Dhabi

Airbus Industrie yesterday won an order for up to 23 A330s from Emirates, the Middle Eastern carrier, putting the European manufacturing consortium on course to sell three times as many aircraft this year as in 1995.

Emirates said it had placed firm orders for 16 A330-200s, worth up to \$2bn. This would include the cost of engines, for which the airline has not yet announced a supplier. It has taken options on a further seven A330 aircraft.

The deal brings the number of orders won by Airbus this year to 298, compared with 108 in 1995. However, Airbus, owned by Aerospatiale of France, Daimler-Benz Aerospace of Germany, British

Aerospace, and Cassa di Spina, is likely to end the year far behind Boeing. Its US rival has taken 504 orders this year, compared with 346 in 1995.

Airbus will help Emirates find customers for its old A310s and A300s. Sheikh Ahmed Bin Saeed al-Maktoum, Emirates' chairman, suggested Airbus might buy them back. Emirates will use the new A330s, which carry 243 passengers, on non-stop services from Dubai to Europe, south-east Asia and South Africa.

It is the first airline in the Middle East to order the A330-200 and is the largest airline customer for the new twin jet.

Emirates, a long-standing Airbus customer, has also placed seven orders for Boeing 777s; three have been delivered.

Airbus yesterday also announced it had signed a

memorandum of understanding with Rolls-Royce, agreeing to use the British manufacturer's Trent 900 engine on the A330X, its planned 550-seat aircraft.

Talks are also continuing with General Electric and Pratt & Whitney of the US, which are expected jointly to design and produce a power plant for aircraft with capacity for more than 500 passengers. Airbus has said it needs to be in the large aircraft market to compete with Boeing by offering a full range of aircraft.

Boeing said last week it would spend \$7bn developing the 550-seat 747-600X and the long-range 460-seat 747-500X. It could build the completely new A330X for \$6bn or less.

Fuel costs 'threaten airline profits', Page 7

Tax-free Chechnya plan

Continued from Page 1

claimed the scheme is simply a means of buying off the Chechnya separatist elite.

To "control and regulate" this situation, the document says Moscow must establish strict control over all movement of people and goods into and out of Chechnya and must oversee all financial transactions between Chechnya and the rest of the world.

But the memo's authors fear that imposing such regula-

tions might provoke "a negative reaction from the Russian mass media, some international organisations (the Council of Europe, the OSCE) and a number of foreign countries (the Baltic states, Ukraine, Turkey) all of whom could "accuse the federal authorities of creating a *corridor sanitaire* around Chechnya".

The memo suggests that a special economic zone would be a way of pre-empting these objections.

Emu talks

Continued from Page 1

Theo Waigel, German finance minister, first proposed the stability pact to guard against fiscal delinquency among Emu participants and as an insurance policy against an overly flexible reading of Maastricht. But last month, the full Commission refused to bow to German demands to define the temporary and exceptional circumstances under which a country could run an excessive deficit and escape sanctions.

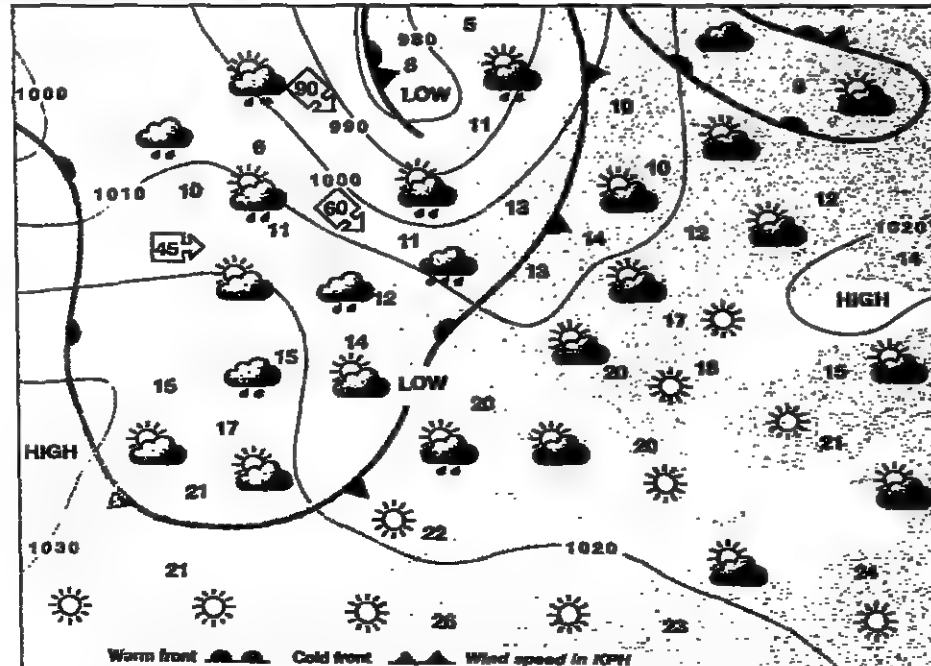
FT WEATHER GUIDE

Europe today

A strong westerly air flow will move depressions from the Atlantic across the continent. Scandinavia will have plenty of wind and rain. The rain will turn to snow in northern Norway as temperatures slip below freezing. In the rest of Europe, cloud, wind, rain or showers will dominate. In Scotland, these showers will be accompanied by sleet. The Mediterranean will be cloudy and only the south-east of Europe will be sunny.

Five-day forecast

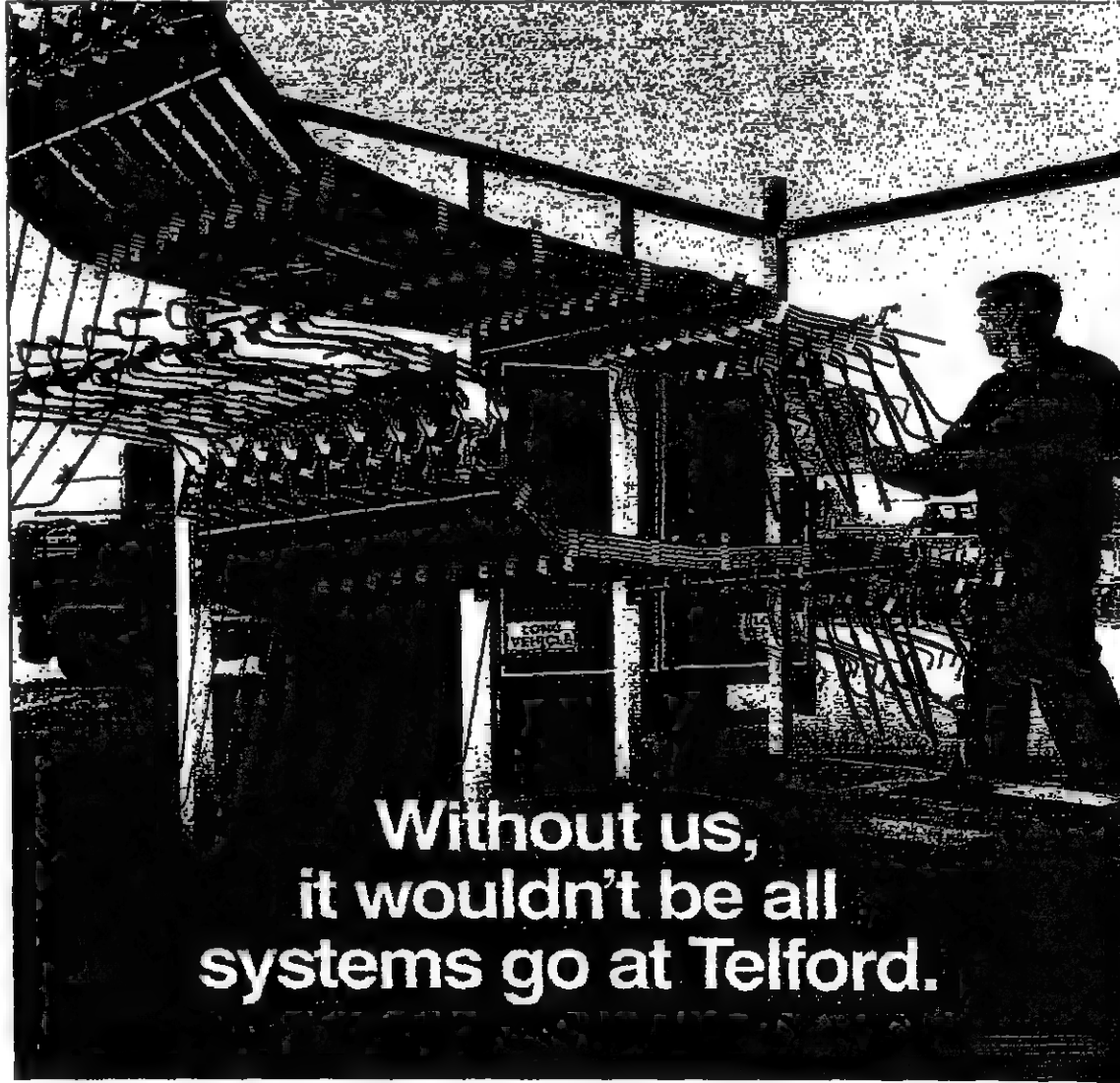
Several fronts will move in from the Atlantic, crossing the UK into western Europe. Cloud, wind, rain and showers will prevail for the next few days. During this period, the region around the Atlantic coast and the North Sea will have gales or even strong gales.



TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp	Location	Temp
Madrid	10	Paris	12	London	11	Amsterdam	10	Brussels	11
Barcelona	15	Berlin	8	Munich	9	Zurich	10	Venice	12
Rome	14	Stockholm	5	Helsinki	4	Tampere	3	Oulu	2
Oslo	1	Reykjavik	-1	Copenhagen	7	Warsaw	6	Vienna	11
Prague	8	Budapest	9	Belgrade	10	Sofia	12	Thessalonika	14
Athens	16	Istanbul	13	Ankara	10	Tehran	18	Dhaka	25
Calcutta	28	Delhi	24	Mumbai	26	Colombo	27	Singapore	29
Manila	28	Hong Kong	25	Seoul	15	Beijing	8	Tokyo	12
Osaka	15	Shanghai	10	Guangzhou	18	Macau	22	London	11
Edinburgh	9	Glasgow	10	Dublin	11	Lisbon	14	Madrid	10

Our service starts long before take-off.
Lufthansa



Without us,
it wouldn't be all
systems go at Telford.

Bandy's new £7 million, 10,000 square metre facility at Telford brings Rover, Toyota, Ford, Jaguar and Aston Martin all the benefits of dedicated cellular manufacturing. Focused teams serve these companies' ever-changing brake and fuel line system requirements - satisfying electronically transmitted orders daily, or every four hours in some cases.

This year alone Bandy has invested in 14 new manufacturing facilities in 8 different countries to enhance its global service, ensuring its automotive and refrigeration customers enjoy world class standards of quality, cost and delivery. Like Telford, all these facilities have just one aim - to deliver the right system just-in-time, every time.

Bandy is one of TI Group's three specialised engineering businesses, the others being John Crane and Dowty.

Each one is a technological and market leader in its field. Together, their specialist skills enable TI Group to get the critical answers right for its customers. Worldwide.



TI GROUP

WORLD LEADERSHIP IN SPECIALISED ENGINEERING

For further information about the TI Group, contact the Department of Public Affairs, TI Group plc, Lambourn Court, Abingdon, Oxon OX14 1UH, England.

John Crane

COMPANIES AND FINANCE: EUROPE

Second profits warning knocks Aga

By Jenny Luesby

Aga, the Swedish industrial gases group, yesterday issued its second profits warning this year, as it unveiled nine-month results that knocked back its share price by 2 per cent.

The shares closed down SKr2.50, at SKr10.3.

At the halfway stage, the group had warned that profits were likely to be 10 per cent lower this year than in 1995. Yesterday, the group revised its estimate of the decline in 1996 to 15 per cent.

It blamed the strength of the Swedish krona and weak economic activity in Europe

and Latin America for the deterioration.

In the nine months to the end of September, sales fell 5 per cent to SKr9.53bn (\$1.44bn). If exchange rates had remained constant, turnover would have risen 3 per cent, Aga said.

Profits were lifted by a SKr1.8bn gain on the sale of the company's shares in Gullspang Kraft, a regional power supplier.

However, excluding this one-off gain, pre-tax profits fell by 14 per cent, to SKr1.38bn. The company said almost half of this decline had been caused by currency movements, which

included a substantial devaluation in Venezuela.

The group's profits were also drained by weak demand and price pressures in Europe and Latin America.

The industrial gases sector is normally less cyclical than the other sectors that supply manufacturing industry, with much of the gas produced on site and sold on a take-or-pay basis.

However, Aga is concentrated in the cylinder gas business, where its main customers are small and medium-sized businesses in the metal working sector.

It is also more exposed

than its competitors to the European market.

In the nine-month period, operating profits had fallen sharply in Germany and Finland, the group said.

The scale of the group's expansion programme in the US, eastern Europe and Latin America had also created financial pressures.

Mr Marcus Storch, chief executive, said that the high tempo of the programme had led to "short-term disruptions and additional costs".

At the same time, the group's new markets had "not yet gathered momentum".

From 1995 to 1997, Aga's

annual investment in new plant and equipment is set to top 20 per cent of sales revenue. Most of this is being financed from the group's own funds.

It has also been making acquisitions. Last week, it completed the \$300m purchase of four air separation plants in the US, from Fraxair. This deal would have a negative impact on earnings until 1998, the group said.

Aga yesterday announced two smaller acquisitions in Puerto Rico: General Gases and Supplies, with annual sales of \$30m, and Liquid Air Puerto Rico, with sales of \$8m.

Spanish groups end TV joint venture

By Tom Iiams in Madrid

Telefónica, Spain's telecoms operator, and Sogecable, a broadcaster managed by Grupo Prisa, the main domestic media company, are due to wind up a controversial cable television joint venture, called Cablevisión, in order to concentrate on separate digital television projects.

Created in July 1995, Cablevisión has come under the scrutiny of Brussels following allegations that it could breach European Union competition rules, because of Telefónica's dominant position in the local market.

The telecoms operator has invested some Ptas20bn (\$157m) over the past three years to install cable infrastructure in most Spanish towns with populations of more than 50,000.

In July, the venture's progress was in effect blocked by the new centre-right government formed by the Popular party, which imposed a two-year moratorium on the start-up of cable broadcasting in order to encourage the creation of other groups in the sector.

Sogecable, which is backed by Canal Plus, the French TV group, is due to begin testing digital services later this month using the Astra satellite system, prior to broadcasting 30 channels in January.

Telefónica, which is due to be fully privatised early next year, said last week that it would lead a consortium that would launch a rival digital TV network in March using Spain's Hispasat satellite, which it part owns.

Both Telefónica and Sogecable said yesterday that satellite systems had replaced cabling as their broadcasting priority. They said the development of the Cablevisión was on hold pending a final decision later this month.

Telefónica, the Spanish stainless steel company, posted group net profits of Ptas2,568bn in the nine months to September 30, up 181 per cent from a year earlier. Cash flow rose 64 per cent to Ptas3,388bn in the period.

Tubacex said these figures showed the company was on the road to obtaining the best results in its history.

Sales fell 8 per cent to Ptas2,19bn in the period, which Tubacex said represented the decline in sales of certain stainless steel products by Aceralava, which provides the raw material for its subsidiary Tubacex Tubes Inoxidables.

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Lyonnaisse plans fund for Latin America

By Andrew Jack in Sydney

Lyonnaisse des Eaux, the French services, communications and construction group, is poised to set up an equity risk fund to help finance infrastructure projects in Latin America.

Mr Jerome Monod, chairman, said yesterday that the Lyonnaisse board was due to make a decision on the fund at the next board meeting, with the idea of launching it next year.

The fund would be similar to the Lyonnaisse Asia Water fund established by the group two years ago, which has \$222m available to provide equity investment for water-

related infrastructure projects in Asia, Australia and New Zealand.

The funds represent a way for Lyonnaisse to help provide a financing package alongside its technical expertise when bidding for contracts around the world.

Speaking at the inauguration of the Prospect water treatment plants near Sydney, which was won by Lyonnaisse in conjunction with two other partners, Mr Monod said the Asia fund's capacity would be increased shortly to \$300m.

The additional support is coming from AIG, the US insurance group, and the government of Singapore. Lyonnaisse has 50 per cent of the

voting rights and is the managing partner of the existing fund. Its aim is to provide half of the equity financing component of water infrastructure projects, which comprise some 20-30 per cent of its total financing costs.

A little less than \$50m has so far been committed from the Asia fund for Lyonnaisse projects in Malaysia and China, and will be an element for all the group's future bids in the region.

Mr Monod said he believed that, within the next few years, Asia would contribute more than half of the sales of the water division of the group.

It already employs 15,000 staff in the Asia-Pacific region and serves 6m clients.

Mr Monod said his group was in discussions with at least one other partner for the prospective Latin American fund, but he would not identify it.

The aim of the funds was to act partly as an initial lever to encourage other forms of the long-term financing necessary for water projects - which typically have a duration of 20-25 years - and provide a way for local partners of the group on particular projects to take an equity participation.

Astra meets forecasts with 8% improvement

By Greg McEvoy in Stockholm

Astra, the Swedish pharmaceuticals group, yesterday announced an 8 per cent jump in nine-month profits, driven by double-digit sales growth of Lescoc, its blockbuster anti-ulcer drug.

Pre-tax profits were in line with market expectations, rising from SKr9.1bn to SKr9.85bn (\$1.49bn). Astra's most-traded A shares closed unchanged at SKr302.

The company, whose chief executive is Mr Håkan Mogren, said negative currency factors knocked 8 per cent off pre-tax earnings. Group sales rose 5 per cent, from SKr28.7bn to SKr29.8bn, but Astra said the gain would have been 18 per cent had it not been for the stronger krona.

Third-quarter pre-tax profits advanced from SKr2.8bn to SKr3.1bn, an increase of 11 per cent. Earnings per share rose from SKr10.76 to SKr11.40, while third-quarter sales increased from SKr8.6bn to SKr9.9bn.

Lescoc, which is poised to become the world's biggest-

selling prescription drug this year, accounted for 45 per cent of group turnover. Its sales grew 13 per cent, or 22 per cent at constant exchange rates, from SKr11.4bn to SKr12.7bn.

Total sales of Lescoc in the world market, including joint ventures and licence production, were SKr17.5bn, against SKr15.6bn.

The US market was the main engine of Lescoc's growth, with nine-month sales there ahead 87 per cent. Lescoc is sold in the US in collaboration with Merck, the US pharmaceuticals group. Astra claimed Lescoc had 32 per cent of the US market for so-called acid inhibitor agents in the third quarter, against 23 per cent the year before.

It said Lescoc was continuing to gain ground in Europe against competitor drugs such as Zantac, produced by Glaxo Wellcome of the UK, and its market share was above 40 per cent.

The company expressed confidence that high growth would continue for its products in the US, where it is due to launch its second-

biggest selling drug, Pulmicort, early next year using its Turbuhaler inhalation device. It predicted annual growth of 25-30 per cent in the US over the next few years.

Mr Colin Gibson, a London-based analyst at Union Bank of Switzerland, said: "The third-quarter figures are quite good, but they



Håkan Mogren: Astra is confident of continued growth in the US

are entirely due to Lescoc and nothing else. It just focuses the debate on what Astra is going to do after Lescoc (whose patent protection starts to expire in 2001).

Pulmicort sales rose from SKr3.2bn to SKr3.3bn, or 13 per cent excluding exchange rate fluctuations. Sales of Seloken, a beta-blocker,

progressed from SKr1.8bn to SKr1.9bn, mainly due to growth in the US.

Research and development spending increased 25 per cent from SKr3.8bn to SKr4.9bn. This was partly due to the acquisition last year of the R&D operations of Fisons of the UK. Comparable R&D spending grew 18 per cent.

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Claas profits ahead sharply on strong demand

By Peter Marsh in Hannover

Good harvesting weather, high grain prices and buoyant demand has led to a sharp rise in profits at Claas, the privately-owned German company which is Europe's biggest maker of combine harvesters.

Pre-tax profits are provisionally estimated at DM90m-DM100m (\$59m-\$66m) for the year to end-September, a rise of 12-20 per cent compared with last year's DM80m.

Sales are up by a provisionally calculated 16 per cent, from DM1.26bn to about DM1.46bn, according to Mr Eckart Kottkamp, chief executive of the Harzewinkel-based company.

Mr Kottkamp, who took over in April from being chief executive at Jungheinrich, the German lift truck company, said profits and sales were likely to rise further in 1997. "It looks as though the market will stay at an attractive level," he said.

Mr Kottkamp gave his esti-

mates for the 1996-1997 figures in an exclusive interview with the Financial Times. Fully audited figures for the year will be disclosed in February.

Claas, which is still owned by the family of the three Claas brothers who set it up in 1913, has an estimated 30 per cent share of the market for combine harvesters in Europe. New Holland, its nearest rival, which is owned by Fiat, has a market share of about 20 per cent.

Combine harvesters account for about 40 per cent

of Claas's sales, with virtually all the rest accounted for by other farm equipment such as foraging harvesters and baling machines.

The company, which bases virtually all its manufacturing in Germany where most of its 4,800 workers are employed, has taken strides in the past year to increase the flexibility of its workforce.

It has cut costs through a policy of hiring workers on temporary contracts to meet peaks in demand and by outsourcing more of

its production to sub-contractors.

Its workforce at its main factory in Harzewinkel was increased from 1,000 to 1,300 in the spring through the use of 300 staff on short-term contracts, in a step needed to meet a sudden surge in demand and which was agreed with local union representatives.

Mr Kottkamp said trade unions were beginning to show realism by agreeing to policies of this kind to help to make German manufacturing more competitive.

He said that in the coming year demand was likely to stay high, helped by renewed confidence among farmers and by a new range of combine harvesters produced by Claas which had cost about DM45m to develop and which were about to go on sale.

Of Claas's total sales, 50 per cent come from Europe, with the former communist states of Poland, Hungary, the Czech Republic and Slovakia all showing a large growth in demand in the past year.

EUROPEAN NEWS DIGEST

Ahold to buy 50% of Brazil retailer

Ahold, the Netherlands' biggest supermarket chain, is to begin operations in South America by buying 50 per cent of the retailing and consumer credit subsidiary of Bompreco, Brazil's fourth-largest food retailer. Bompreco has 50 stores with 10,000 employees and annual turnover of some \$1.4bn.

The two companies said the move was part of a strategic alliance in which they would jointly develop food outlets in north and north-east Brazil. This would include acquiring other supermarket chains. No value was disclosed on the deal, which Ahold said would be financed with available funds and not dilute earnings.

Mr Fritz Ahlqvist, an Ahold director, said the purchase "provides a flying start for Ahold in Latin America". Bompreco, based in Recife, was founded in 1935 and has more than 1.3m sq ft of selling space, from hypermarkets to convenience stores. It has just raised \$74.3m through an international placing of preference shares.

Gordon Cramb, Amsterdam

Framatome row mounts

French opposition to a proposed merger that would give General Electric Company of the UK a stake in France's flagship nuclear industry mounted yesterday. The opposition Socialist party came out against the proposed deal which it said threatened France's ability to pursue an independent energy policy.

Last week Mr Jean-Claude Leny, chairman of Framatome, the French nuclear plant and fuel manufacturer, attacked the proposed merger between Framatome and the GEC Alsthom power engineering and transport equipment group, saying it could harm co-operation with Germany on the replacement of Europe's existing nuclear power stations.

David Owen, Paris

Swedish Match down 12%

Swedish Match yesterday posted net profits down 12 per cent, from SKr583m to SKr715m (\$108m), for the first nine months. Operating profits fell from SKr1.29bn to SKr1.1bn on sales down from SKr5.53bn to SKr5.43bn. Pre-tax profits, before minorities, fell from SKr1.23bn to SKr1.03bn. The shares rose 10 ore to close at SKr19.80.

The company said the stronger krona cut sales by around SKr350m.

AFX News, Stockholm

Prominent targets Asia

Prominent of Germany, a world leader in specialist pumps for the chemical, water and food industries, is planning a series of investments in the Pacific Rim. Mr Viktor Dulger, chairman and owner of the company, said the company was ready to spend about DM28m (\$18.5m) in investments in plants and sales offices in the region over the next decade.

Prominent is unusual among Germany's manufacturers in the importance it places on sales outside its home territory, which accounts for only about 40 per cent of its current revenues of DM240m this year.

Of the planned DM28m investment in eastern Asia in the next 10 years - which would double Prominent's spending there since the late 1980s - Mr Dulger said he envisaged spending DM10m on building up business in China, where Prominent has had a factory since 1984. Besides its main manufacturing centre in Heidelberg, the company has plants in Maita, the Czech Republic and India as well as in China.

Peter Marsh, Hannover

VW resignation 'untrue'

Volkswagen denied a report in German news magazine Der Spiegel that Mr Martin Posth, the board member responsible for the car manufacturer's Asia business, was to resign. "It is completely untrue," the company said, adding that Mr Posth had no intention of not renewing his contract, which ran until 1998.

AFX News, Frankfurt

RPR drug study 'promising'

A study of Rhône-Poulenc Rorer's new anti-cancer agent Taxotere in combination with cisplatin, another anti-cancer treatment, has shown the combination is promising, said the company. Side effects were predictable and manageable, said the Franco-American company.

The early clinical studies group of the European Organisation for Research and Treatment of Cancer (EORTC) released the results of the phase-three trials in a paper delivered yesterday to the 21st European Society of Medical Oncology Congress in Vienna. The combination demonstrated a 55 per cent response rate in patients with cell carcinoma of the head and neck. EORTC said: "Based on the findings, this promising combination therapy of Taxotere with cisplatin will soon be compared with standard chemotherapy in a large scale phase-three trial in patients with locally advanced disease."

The conference was also told a drug being developed under licence by Rhône-Poulenc Rorer had been found to control the progression of colorectal cancer in about 50 per cent of patients resistant to the standard treatment. RPR, which is developing the drug under licence from Japan's Yakult Honsha, said the drug was the first therapeutic innovation in colorectal cancer in 40 years.

AFX News, New York

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Application has been made to London Stock Exchange Limited for the shares in the Company being issued and placed to be admitted to the Official List. It is expected that dealings in the shares will commence on 20th November 1996. Listing particulars of the Company have been published in connection with the application and copies of them can be obtained during normal business hours on any weekday (excluding Saturdays and public holidays) up to and including 20th November 1996 (or, if later, the date on which the offers become or are declared unconditional in all respects) from:

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EC1A 9BD

Copies of the listing particulars can also be obtained from the Company Announcements Office, The London Stock Exchange Tower, Capital Court Entrance, off Bankside Lane, London EC2N 1HP on 5th and 6th November 1996.

5th November 1996

The United Mexican States Floating Rate

Privatization Notes Due 2001

The applicable rate of interest for the period November 1, 1996, through and including February 2, 1997, to be paid on February 3, 1997, a period of 94 days, is 6.125%. This rate is 12 1/2% above the offered rate for three-month deposits in U.S. Dollars which appeared on the display designated as the British Bankers' Association's Interest Settlement Rate (5.50%) as quoted on the Dow Jones/Reuters Monitor on September 30, 1996, at 11:00 A.M. (London Time) on October 30, 1996.

The above rate equates to an interest payment of U.S.D. 16,4526 per USD 1,000.00 in principal amount of Notes.

BANCO NACIONAL DE MEXICO, S.A.
NEW YORK AGENCY
October 30, 1996

Volvo Group Finance Europe BV
U.S. \$150,000,000

7.375 per cent Guaranteed Notes due 1999

Noteholders are hereby informed of the following purchases made by the issuer in accordance with Section 7(c) of the Offering Circular dated 27th September, 1994:

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COMPANIES AND FINANCE: ASIA-PACIFIC

Philippine banks ahead midway

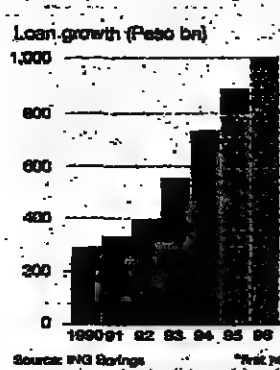
By Edward Luce in Manila

Rapid loan growth and a buoyant economy raised total net profits in the Philippine commercial banking sector by 31 per cent to 46bn pesos (US\$1.78bn) in the first half of 1996, according to a central bank report.

The sector's performance - the fourth consecutive year of profits growth exceeding 30 per cent - was driven mainly by loan interest income, which grew by 38 per cent to 32bn pesos. Net interest income accounted for 90 per cent of total assets of 1,800bn pesos in the Philippine commercial banking sector's 51 banks.

Analysts say the sector's rapid growth, which has seen total loans rise by almost 500 per cent since 1990 to 1,003bn pesos, is

Philippine banking



Source: BSP Reports

almost certain to slow in the next two years. Loan growth of more than 30 per cent a year has not been matched by an equivalent rise in deposits, which grew 12 per cent in the first half.

Most of the capital for the

new loans in the last year has been raised through rights issues and overseas dollar borrowing. The report said cheap capital from fresh equity would be more tightly limited in future.

"There are fairly manifest reasons to be cautious about the sustainability of the banking sector's recent performance," said Mr Chris Hunt, chief researcher at W.I. Carr in Manila. "The loan:deposit ratio is approaching 100 per cent, which is a good signal for a slowdown in loan growth."

Brokers, however, say that with an average capital reserve ratio of 15 per cent, the Philippine banking sector remains in a healthy position. Exposure to the vulnerable property sector remains below 10 per cent of the average loan portfolio.

But increased competition from foreign banks - 10 were given full domestic licences in 1995 - is expected to squeeze profit margins and further narrow interest rate spreads between domestic lending and borrowing. Government plans to issue a further 10 licences to foreign banks in the next 18 months are expected to tighten margins in the lucrative corporate lending sector.

"There is still a lot of room for more operating efficiencies in Philippine domestic banking and there will almost certainly be further mergers and consolidations as foreign competition intensifies," said one banking analyst. With an average p/e ratio of 18.5, listed Philippine banks are trading at about the same multiple as the Philippine composite index.

Packer's PBL prepared to lift Fairfax stake

By Nikki Teit in Sydney

Mr Brian Powers, chairman of Mr Kerry Packer's Publishing and Broadcasting (PBL) media group, yesterday confirmed that the quoted company was still interested in raising its stake in John Fairfax, Australia's leading newspaper publisher.

"In July we increased our interest in John Fairfax to 14.9 per cent, the limit permitted under relevant cross-media regulations," he told PBL shareholders at yesterday's annual meeting. "Our goal continues to be to increase our ownership in Fairfax, subject to a relaxation of the cross-media laws and to any transaction being in the best interests of shareholders."

Mr Powers' remarks follow speculation among brokers and analysts that Mr Packer's declared interest in owning Fairfax might be waning. Because of his ownership of

Channel Nine, the leading Australian commercial TV network, Mr Packer cannot currently own more than 15 per cent of Fairfax. Mr Conrad Black, the Canadian media proprietor, who owns 25 per cent, is also barred from going higher by foreign investment constraints on media assets.

However, the government is currently reviewing these rules - although by way of a discussion paper rather than a full public inquiry.

Yesterday, Mr Powers also said PBL expected to post improved pre-interest profits in the current financial year, to end-June 1997. He said TV ratings had been "excellent" in the opening months, but conceded that "the advertising market has yet to regain any real vitality".

Despite the forecast, Mr Powers said the "quantum of this increase is impossible to predict at this stage". Last year, PBL - in which Mr Packer's private Consolidated Press holds a control-



Kerry Packer: currently limited to 15 per cent of Fairfax

ling stake - made an operating profit of A\$313.8m (US\$248m) and an after-tax profit of A\$228m. Interest charges were A\$61.6m. Meanwhile, there were very smiles when it fell to Mr James Packer, the 28-year-old son of Australia's richest man and now managing director, to handle his father's re-election to the board.

Happily, no shareholders felt inclined to vote against the motion.

Earnings slide 14.8% at CLP

By Louise Lucas in Hong Kong

China Light and Power, Hong Kong's dominant electricity supplier, yesterday reported a fall of 14.8 per cent in net earnings, from HK\$5.67bn to HK\$4.84bn (US\$626m), for the year to September 30.

The results were slightly lower than market expectations. Stripping out the previous year's exceptional gain of HK\$1.39bn on the sale of a development site, earnings rose 10.2 per cent, from \$4.39bn to \$4.84bn.

The company has also cut capital expenditure projections for 1997-99, from HK\$80bn to HK\$60bn. For the same period, CLP plans to reduce operating expenditure by HK\$3bn, by lifting productivity.

Sales of electricity to the manufacturing sector, much of which has migrated towards cheaper land and labour costs in China, fell 4.2 per cent over the year, but overall local unit sales grew 4.3 per cent, to 22.3bn units.

Export sales slumped 70 per cent, to 590m units, as demand from the neighbour-

ing Guangdong province dried up. Sir Sidney Gordon, chairman, said: "10 per cent of our load was going there three or four years ago, but now we are selling practically nil because they have sufficient supply for their needs."

CLP also announced progress in overseas power deals. It is arranging financing for a 3,220MW power plant in China's Shandong province. Talks with international export credit agencies are under way, but the task has been made harder by the lack of guarantees from the Bank of China group.

The Indian joint venture with Cogentrix Energy of the US has moved ahead, with the Indian government approving in principle a counter-guarantee to support Karnataka state's obligations. In Taiwan, CLP has exercised its option on a 30 per cent stake in the 1,320MW Hsinying project near Hualien.

Earnings per share for the year fell from \$2.85 to \$2.42. Excluding the previous year's exceptional item, earnings per share were up 10.2 per cent from \$2.20.

Email profit hit by restructuring

By Nikki Teit

Email, the Australian appliances and building products group, reported a 10.4 per cent fall in first-half net profits to A\$23.9m (US\$18.9m) and said economic conditions remained uncertain.

The result, for the six months to end-September, compared with A\$27.3m a year earlier. The fall was due in part to a A\$3.4m abnormal charge, compared with a A\$1.7m surplus last year, related to group restructuring. Interest charges also rose, from A\$18.9m previously to A\$20.4m, as a result of the acquisition of Atlas Steel last November.

Sales, including Atlas, rose 7.5 per cent to A\$1.1bn. There were stronger results from metals, major appliances and building products, but industrial products earnings were hit by lower demand for air conditioning and heating products caused by a cool summer and a slump in housing. Government spending cuts and uncertainty over the deregulation of utilities also

affected storage systems and metering equipment.

Email, the market leader in the major appliance sector and something of a bell-weather for Australian manufacturing, said the "environment for industrial activities remains difficult. Recent economic forecasts have deferred the timing of an upturn in economic drivers relevant to Email."

But it added that restructuring should help lift pre-tax profits and that second-half profits should be "well ahead" of the first half.

David Jones, one of Australia's two big department store groups, added to the gloom yesterday when it announced sales in the first quarter of its 1996-97 year were 2.9 per cent lower year-on-year at A\$310.5m.

"Low levels of consumer confidence and concerns about job security have had a depressing impact on consumer spending," it said.

Coles Myer, the country's biggest retailer, lifted first-quarter sales by 3.6 per cent to A\$444bn, which outstripped inflation but was lower than the company has been recording in recent quarters.

ITC to refocus after scandal

BAT looks for working relationship after battle with Chugh

Standing impassively in the caged dock of a Calcutta court on Friday, Mr K.L. Chugh, former chairman of the ITC tobacco conglomerate, must have wondered whether he could continue to blame BAT of the UK for his predicament.

Since BAT, which owns 32 per cent of ITC, moved to oust Mr Chugh last year, he has sought to portray it as a predatory multinational inclined to interference in ITC's affairs. BAT was "out to destroy the company as well as the country," he said at the time of his arrest last week.

Yet with six past and present ITC officials, including two former chairmen, now under arrest in connection with offences against India's foreign exchange control regulations, BAT's initial suspicions of irregularity seem to have been right. Without any help from its UK sponsor, ITC is enmeshed in one of India's biggest ever corporate scandals.

ITC executives say they expect the affair to culminate in sweeping board changes designed to limit the power of the chairman and restore the credibility of management. Finance Ministry officials say ITC siphoned at least \$100m offshore by falsifying invoices for exports and imports. This allowed it to keep secret accounts abroad with the help of an expatriate Indian family. Only as ITC's relations with the expatriate family soured in recent years did the illicit dealings come to light.

India's exchange controls

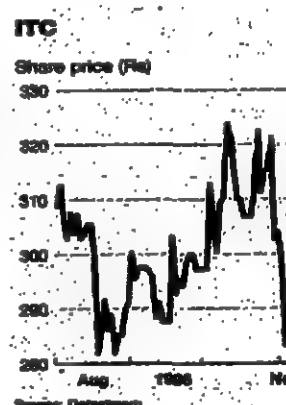
are no longer as strict as they were in the 1980s, when the ITC malpractice is alleged to have started. But executives from other companies say they too inhibited business there was a natural temptation to seek ways round them.

Similarly, many companies were steered, like ITC, into ill-conceived diversification during the so-called "licence raj", when government permits were required for new activities. "We had no option," says Mr B.K. Birla, the veteran industrialist whose group is also trying to narrow its focus.

But if ITC is a victim of the times, that still leaves the questions of how far the offshore accounts were run for the personal benefit of individuals and why BAT, together with ITC's Indian government institutional shareholders, failed to notice something was wrong.

Analysts say the 8 per cent fall in ITC's share price since the arrests reflects concern that the affair may leave a hole in its balance sheet, but the problem is one, above all, of corporate governance. In spite of a special audit last year, ITC executives are not sure how much money was siphoned offshore and for whom. Even if some is irretrievable, it was never officially declared as profit. The company may be heavily fined but with reserves of Rs8.8bn (\$47m) it is strong financially. It generated net cash of Rs2.4bn last year in spite of paying a Rs1.7bn claim for back excise duty.

BAT failed to act because it was little more than a



Source: Bloomberg

exchange controls, he was a director for much of the period during which they are alleged to have taken place.

BAT is expected to seek new board appointments from outside the company, and may want to put one of its own executives in as finance director.

Brusled by its battle with Mr Chugh, it is being careful to work with the institutions. A BAT delegation is travelling to Bombay this week to talk to them.

"What we are about is trying to achieve a normal working relationship with ITC," said Mr Michael Pridemore, BAT's head of communications. In London, "Control has hardly ever been on the agenda, although it is plausible we might increase our stake."

ITC is meanwhile proceeding with plans to refocus its activities. ConAgra has signed an agreement to enter its edible oil business and most expect the US company to take eventual control.

The company is looking for new partners that might ultimately take over its interests in hotels, as well as paper and board. After a restructuring which should be largely complete by next year, ITC would be left, like BAT, focused on tobacco and financial services.

ITC insiders believe BAT will be happy with that, especially if it frees ITC to concentrate on the fast growing competition in the Indian tobacco market from other multinationals.

Peter Montagnon and Kunal Bose

TRANSNET

INVEST IN CAPITAL MARKET BONDS

INTRODUCING T011 - AN EXCITING NEW INSTRUMENT

Transnet Limited is one of the world's largest transport conglomerates; as such, it plays a vital role in the economy of South Africa. It is a thriving multi-modal transport company built on the principles of excellence. Transnet is worth R40 239 million (€ 6616 million) in total operating assets and has a workforce of 114 000 employees.

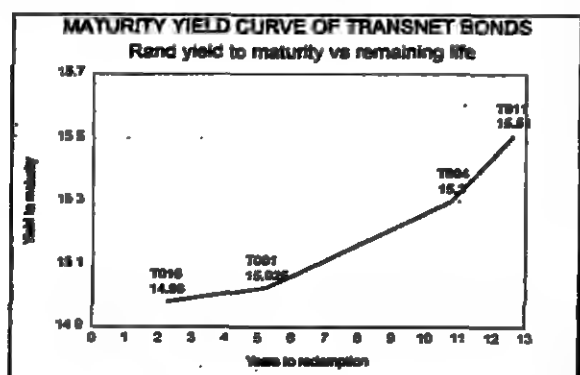
The capital intensive nature of the business Transnet operates, as well as sheer size of the operation, necessitates a sophisticated approach to the financing of the business. This function is executed by the centralised Treasury division with the mandate to raise the funds needed by all divisions and subsidiaries of Transnet.

Transnet's borrowing rationale is centred around upgrading and expansion of its infrastructure and asset base. It does this with regard to the returns which can be generated from its investments and with regard to the economic consequences for both Transnet and South Africa. As managers of the financial risks of Transnet, one of the functions of Treasury is to ensure that the maturity of fixed assets and liabilities of Transnet will closely coincide. As such, Treasury is tasked with maintaining a wide spectrum of funding instruments suitable to the needs of the operating divisions of Transnet and therefore the need for new bonds arise from time to time.

Transnet Treasury is a leading provider of capital market solutions for South African companies. It is a member of the South African Association of Issuers (SAAI) and the South African Association of Bond Issuers (SABII). It is also a member of the International Capital Market Association (ICMA) and the International Association of Bond Issuers (IABI).

For further information, contact: TRANSNET Treasury, P.O. Box 32590, 2017, Grahamstown, South Africa.

Name: _____ Address: _____



Transnet Rand Denominated Bonds

Bond Code	Redemption Date	Coupon Rate	Issued R million
T007	01 Apr 1997	12.5%	2200
T016	15 Feb 1999	11.5%	2800
T001	01 Apr 2002	12.5%	1300
T004	01 Apr 2008	7.5%	4100

Regarding dealing in Transnet bonds, investors may obtain two way prices from the Transnet Treasury dealing room or from most South African banks or stock brokers. In essence, an investment in Transnet will render just, if not excellent, value to any investment portfolio.

Dealing room telephone nr. (2711) 488-7588/89

Prices for electricity delivered at the passive of the electricity trading and trading on the electricity exchange				
Yield and price for electricity trading on the electricity exchange				
ISIN	Yield	Price	Yield	Price
0000	12.50	100.00	12.50	100.00
0001	12.50	100.00	12.50	100.00
0002	12.50	100.00	12.50	100.00
0003	12.50	100.00	12.50	100.00
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0098	12.50	100.00	12.50	100.00
0099	12.50	100.00	12.50	100.00
0100	12.50	100.00	12.50	100.00

COMPANIES AND FINANCE: THE AMERICAS

William Resources in bid for Terra

By Kenneth Gooding,
Mining Correspondent

William Resources, of Canada, has made a \$K716.1m (\$108.75m) offer for Terra. The offer has been made for Terra Mining, owner of western Europe's biggest gold mine, the Bjorkdal mine 820km south of the Arctic circle in Sweden. The rapidly growing Canadian company started the year with no gold production but now has four operating mines.

The Terra board is recommending the offer and Norsk

Hydro, which floated Terra on the Swedish exchange in 1993, is accepting in respect of the 42.3 per cent of Terra it still owns. Norsk said that if the offer succeeded, it would realise a pre-tax gain of more than \$K200m. The sale was in line with its strategy of focusing on core activities.

Terra said on October 15 it was in talks that might lead to a merger. William, which is quoted on the Toronto and Australian stock exchanges, said its offer of \$K162.50 a share represented a 23 per

cent premium on Terra's price on November 1.

The offer is conditional on William obtaining acceptances from holders of more than 90 per cent of Terra's shares. William said a syndicate led by Nesbitt Burns and ScotiaMcLeod would underwrite the issue of \$K55m (US\$68m) of convertible debentures to fund some of the acquisition cost. It was in final negotiations with Gerald Metals and a banking syndicate for a loan facility of up to US\$75m to fund the balance.

Terra produced 71,292 troy ounces of gold at the Bjorkdal mine last year and expects this to rise to about 87,000 ounces this year. Its new Pahtavaara mine in Finland started up recently and should produce 10,000-15,000 ounces this year. Next year it should reach full annual capacity of 20,000 ounces.

William has been expanding via acquisitions. In March it paid \$K50m for Val-d'Or Minerals, an Australian company that owns the Rustlers Rook gold mine in the Northern Territories and the

Ballarat East mine in Victoria, where production began last week.

In July, William acquired the Jacobina gold mine in Bahia State, Brazil, from Anglo American Corporation, of South Africa, and Banque Paribas for US\$16.4m and a 6 per cent net profits interest royalty. William also owns the Velardeña gold mine in Durango, Mexico, which began production in May.

It also has several gold projects in Russia and Uzbekistan.

NationsBank and First Union may shift focus

By John Authers
In New York

NationsBank and First Union, the two US commercial banks whose acquisition spree have turned Charlotte, North Carolina, into the nation's third-largest banking centre, could be shifting their strategies for further growth.

The two banks have spearheaded the swift consolidation of US commercial banking in recent years. Last year First Union bought First Fidelity, based in Newark, New Jersey, for \$5.4bn, and it now has branches in 12 states.

NationsBank surprised Wall Street in August with its \$5.5bn acquisition of Eastern Bankshares in St. Louis. The deal will make it the nation's fourth largest bank, behind Chase Manhattan, Citibank and BankAmerica.

But both banks last week told analysts they would be changing their focus in the next few years.

First Union announced it would now aim for a return

on common equity of 18 to 20 per cent, up from the present target of 16 per cent. Investment in technology is meant to improve efficiency in retail banking.

But growth in shareholder value is to come from the bank's fee-based businesses, such as investment banking and asset management.

By 2000, according to Mr Edward Crutchfield, chief executive officer, fee-based income will account for 40 per cent of revenues, up from the current 30 per cent.

First Union now has the third-largest mutual fund business of any bank, built by acquisitions. It intends to expand its fund management business from pre-tax income last year of \$220m to \$1.15bn in 2000. Its capital markets group, which concentrates on servicing small and medium-sized companies rather than competing directly with Wall Street, is also targeted for growth.

Mr Hugh McGill, chief executive of NationsBank, confirmed to analysts that his ambition remained to expand into California and

become the first truly national bank.

However, Mr McGill appeared to suggest that expansion to the west coast might have to be via investment in technology and reaching customers electronically, rather than through a big acquisition. He pointed to the company's successful cost-cutting in its traditional branch network, with more than 100 offices sold or closed this year.

He also expressed an interest in buying a "small" investment banking firm "outside New York City" which would handle small and medium-sized businesses, in a strategy which appears similar to First Union's.

● Southern National and United Carolina, two North Carolina-based banks, announced yesterday that they were merging, in a deal which creates the 29th largest bank in the US, with assets of more than \$25bn. The move was seen as defensive, to avert the possibility of takeover by a larger regional rival.

Westinghouse Electric narrows losses

Westinghouse Electric reported third-quarter net losses of \$28m, an improvement on the \$52m loss a year ago, on revenues of \$2.04bn against \$1.28bn, reports AFX News in New York. The result, equivalent to earnings per share of zero, against 4 cents in the year-ago quarter, was in line with analysts' forecasts.

CBS, the company's broadcasting group, reported earnings before interest, taxes, depreciation, and amortisation

(EBITDA) of \$149m, compared with \$53m in the year-ago quarter. Third-quarter sales were \$910m, compared with \$156m.

Excluding the benefit from purchase price accounting, EBITDA for the broadcast group fell 12 per cent from last year, the company said.

Mr Michael Jordan, Westinghouse chairman, said that while results from its television stations declined due to lower ratings and affiliation switches,

"considerable" progress was being made in reducing costs and strengthening the performance of stations in leading markets.

Westinghouse's radio business posted a 14 per cent rise in sales in the quarter, outpacing the market.

Mr Jordan said the company was pleased with the launch of its new prime-time season. "CBS has increased viewership among households and has grown target demographics. This

improved network performance, our increased focus on station operations and cost-reduction programs will drive stronger results at the TV stations.

"Our radio stations continue to far exceed our expectations, both in revenue growth and profitability. We expect to build on this performance as we look forward to our merger with Infinity Broadcasting."

Sales in the industries and technology division were up

slightly, while operating profits were down.

In power systems, which accounts for about two-thirds of group revenues, about \$900m in new orders were received in the quarter. Revenues increased significantly, but profits were equal to last year, due to changes in the sales mix and lower prices in the equipment backlog. However, profitability for the year is likely to be below expectations, Mr Jordan said.

Conrail shares slip as suitors hold talks

Shares in Conrail fell 64¢ to \$90.41 early yesterday after rival bidders for the fifth-biggest US railway company said they were in talks about their takeover offer, agencies report from New York.

CSX, which last month agreed an \$8.1bn merger with Conrail, said it was holding talks with Norfolk Southern about a possible sale of some material assets after its proposed merger with Conrail.

Norfolk made a rival

\$8.5bn bid for Conrail two weeks ago, and filed a suit to try to stop the two railroad companies from merging.

Norfolk said the basis for its participation in the talks was "its commitment to provide strong competitive service in the east for rail customers".

"This is not a good time to be having a long, drawn-out fight," said Mr Anthony Hatch, an analyst at West Securities. "The

quicker they get to this, the better."

However, Norfolk said it remained committed to its \$100 a share cash offer, and had secured more than \$15bn to finance the acquisition.

CSX is offering \$92.50 a share in cash for 40 per cent of Conrail's shares and 1.65¢ CSX shares for each of the remaining 60 per cent of the shares.

A merger between CSX and Conrail would create the

world's biggest freight company with annual revenues of more than \$14bn. The announcement of the merger followed a string of deals in the western US, with Union Pacific spending \$3.9bn to take over Southern Pacific Rail, and Burlington Northern acquiring Santa Fe Pacific for \$4bn last year.

CSX and Conrail indicated, when they announced their merger, that they would offer rights of access for some routes to Norfolk.

Argentina's energy groups seek wider opportunities

The country's oil and gas industry is well-placed for expansion

Argentina's oil and gas industry is in an expansionary mood. Its companies, privately owned and with three years' experience of operating in a deregulated market, are uniquely placed to spread throughout the continent.

That, at least, is the view of Mr Santiago Soldati, chairman of Argentine energy-based conglomerate Comercial del Plata (SCP). He believes Argentine oil and gas groups - well managed and technically efficient - will take the lead in prising open opportunities in Latin countries whose hydrocarbon sectors are slowly emerging from decades of protection and monopoly.

"Sooner or later, Latin America is going to open up to foreign capital to increase production and competitiveness," he says. "The only companies that can enter these countries with the right know-how are Argentine."

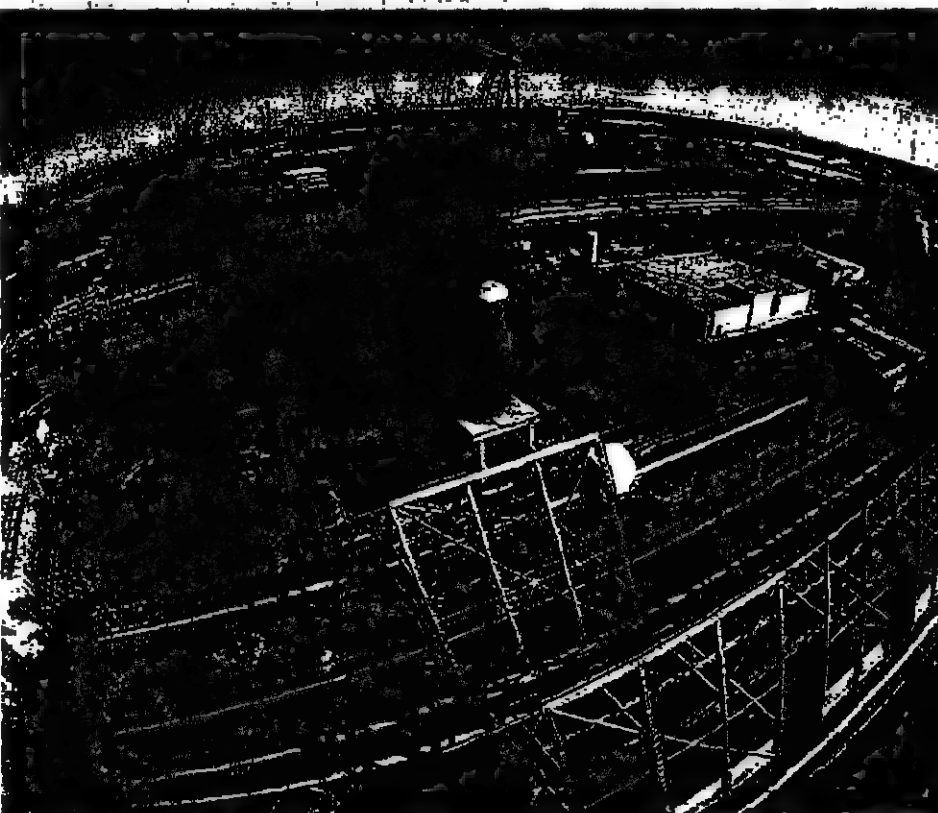
The process has already begun. Perez Companac, Argentina's second-biggest hydrocarbons producer, has since 1994 been part of a joint venture to develop the Oritupano-Leona field in Venezuela, which has begun to open its oil sector to private capital. A marginal field in Venezuela alone produces as much as a core holding in Argentina.

Last year, Perez bought a licence to explore the San Carlos field, also in Venezuela, which should add 60,000 barrels a day to the group's current output of 100,000 bpd. Perez is also drilling in Ecuador and is interested in investments in Bolivia and Colombia.

Astra, Argentina's fifth-biggest energy group, is making tentative moves abroad. The company, controlled since June by Repsol, the large Spanish energy group, has an operating contract in Venezuela's Guimara-La Ceiba field. With Repsol's backing, Astra is expected to bid for much bigger blocs in forthcoming Venezuelan rounds.

SCP is also nibbling at Latin opportunities. It has one production and one exploration area in Ecuador, and a chain of Puma service stations in both Ecuador and Bolivia. It is also considering investments in Guatemala, El Salvador, and Panama, according to Mr Soldati.

YPF, privatised in 1993 and Argentina's largest hydrocarbons group, has taken a different route to foreign expansion.



Hydrocarbons sectors across the continent are emerging from decades of protection

Last year it paid \$750m for US-based multinational Marus, giving it production stakes in Venezuela, Ecuador and Bolivia, in addition to resources in Texas, Indonesia and North Africa. Although purchase of the loss-making Marus was criticised, YPF is showing strong signs of turning the company round.

Independently of Marus, YPF has service stations in Chile and Peru, and recently acquired a stake in La Pampilla, Peru's biggest refinery.

It is largely through YPF's efforts that Argentina, which has boosted oil and gas reserves more than 50 per cent since 1990, is now a net exporter of hydrocarbons. In 1994, YPF built an oil pipeline to Chile, and will soon be exporting large quantities of gas to Chile through two separate pipelines.

YPF plans to participate in the construction of a gas pipeline from north-western Argentina to São Paulo in southern Brazil, a project that will radically change the energy map of South America. YPF, along with several other companies, is trying to establish sufficient reserves to make the project viable.

Argentina's potentially huge gas resources ensure it will play a crucial role in

regional energy projects, says Mr Jay Bhutani, an energy analyst with Caspian. "We very much agree with Soldati. Latin America is going through a production boom in oil and gas," he says. "In gas, Argentina will be critical in developing infrastructure in the southern cone."

In oil, where Argentina's reserves are smaller, companies are beginning to think regionally. Argentine energy groups, many of them conglomerates with diversified holdings, can enter a market in several ways. Astra, for example, has gained a foothold in Brazil through its shipping interests, which should allow it to move into other areas as the potentially huge Brazilian energy market is deregulated.

"Argentine companies do have a definite advantage in oil and gas," says an analyst at Kleinwort Benson. "They know how to play the politics, they know the local culture and they know the geology."

However, Mr Frank McGann, Buenos Aires-based analyst with Merrill Lynch, believes the advantage of Argentine companies can be exaggerated.

"There's something to be said for Soldati's view," he says. "But on the other

hand, a company like Comercial del Plata is very small. Having expertise is one thing, but what you really need is capital."

Mr Phokion Potamianos, also of Caspian, denies that Argentine companies are too small to compete, pointing to their success in bidding rounds in Venezuela, often as part of joint ventures.

In the case of Astra, through which Repsol intends to funnel \$2bn in Latin investments over the next five years, capital is now much less of a problem. Perez is cash-rich, while YPF has more than enough muscle to compete, especially given its strategic alliance with Petrobras, Brazil's state-owned giant.

Besides, says Mr Bhutani, from an investor's point of view the relatively small size of Argentine groups is an advantage.

Investors wanting to profit from Venezuelan production growth could buy stock in BP, but BP's exposure to Venezuela represents only a fraction of its overall activity. On the other hand, investing in an Argentine company ensures a much bigger exposure.

"Perez will nearly double its reserves in Venezuela, so it's a very clean play into that country," he says.

David Pilling

All of these securities having been sold, this announcement appears as a matter of record only.

10,637,500 Shares



Crown Cork & Seal Company, Inc.

Common Stock

1,850,000 Shares

This portion of the offering was offered outside the United States and Canada by the undersigned.

LAZARD CAPITAL MARKETS

CS FIRST BOSTON

SALOMON BROTHERS INTERNATIONAL LIMITED

ABN AMRO ROTHSCHILD BARCLAYS DE ZOEIT WEDD LIMITED CAZENOVE & CO.
CREDIT LYONNAIS SECURITIES CREDITANSTALT INVESTMENT BANK AG
DRESNER KLEINWORT BENSON MEDIABANCA - BANCA DI CREDITO FINANZIARIO S.P.A.
MERRILL LYNCH INTERNATIONAL SOCIÉTÉ GÉNÉRALE

8,787,500 Shares

This portion of the offering was offered in the United States and Canada by the undersigned.

LAZARD FRÈRES & CO. LLC

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SALOMON BROTHERS INC

BEAR, STEARNS & CO. INC. ALEX. BROWN & SONS CHASE SECURITIES INC.
DEUTSCHE MORGAN GRENFELL DILLON, READ & CO. INC.
DONALDSON, LUFKIN & JENNETTE HAMBRECHT & QUIST
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ALLEN & COMPANY JANNEY MONTGOMERY SCOTT INC. JEFFERIES & COMPANY, INC.
EDWARD D. JONES & CO., L.P. PARKER/HUNTER
PENNSYLVANIA MERCHANT GROUP LTD PRYOR, McCLENDON, COUNTS & CO., INC.
RAYMOND JAMES & ASSOCIATES, INC. WHEAT FIRST BUTCHER SINGER

October 1996

All of these securities having been sold, this announcement appears as a matter of record only.

3,450,000 Shares



Crown Cork & Seal Company, Inc.

4.5% Convertible Preferred Stock

LAZARD FRÈRES & CO. LLC

CS FIRST BOSTON

SALOMON BROTHERS INC

October 1996

THE BT-MCI DEAL

What price a ticket to the Concert?

Among the reams of paperwork on the BT-MCI merger, one essential figure is missing: the value of the offer to MCI's shareholders. This is understandable, given the complexity of the offer.

The starting point is simple enough. For each MCI share, BT is offering 5.4 of its own shares plus \$6 in cash. Yesterday, after news of the deal had broken, BT shares closed at 373p, a rise of 22p.

At yesterday's exchange rate of \$1.63 to the pound, this ought to value MCI at almost \$39 a share. In fact, MCI's shares yesterday rose 4% in early dealings to \$31. So why the difference?

The biggest reason has to do with dividends. BT has declared a special one-off dividend of 35p net per share to existing shareholders, costing it \$2.2bn. While the payment is not dependent on the deal going through, neither will it apply to the new shares being offered to pay for MCI.

Tony Jackson rehearses the argument about how much BT's proposed cash and share offer will be worth to shareholders in MCI

BT's reasons for the payment are a touch vague. At present, it says, it is under-gearing, with net debt equal to only 8 per cent of equity. It, therefore, wants to use debt to improve return to shareholders.

On the other hand, the gearing for the combined group is about to leap to 65 per cent. It is hard to resist the conclusion that BT is using the payment to improve the value of its own shares as currency for the deal. After all, more than 80 per cent of MCI's purchase price will be in paper rather than cash.

Whatever the reason, logic suggests the 35p should be knocked off the value of MCI. BT's supporters would argue differently. Financial theory, after all, sug-

gests that borrowing money to pay a dividend should add nothing to a share value because the higher yield is precisely offset by the higher risk caused by extra gearing.

Therefore, it is argued, the rise in BT's share price does not reflect the special payment, nor BT's separate proposal to buy back 10 per cent of its shares. It results from the market's enthusiasm for the merger, and the extra growth and cost savings which it promises.

That is a red herring. Whatever the BT price on the day the deal is closed, the shares will be worth 35p more to its shareholders than they will be to MCI's. On the other hand, the closing date is at least a year away; so while the

35p payment is certain - being unconditional on the deal going through - it should be discounted to bring it to today's value.

The second element in the calculation is the annual dividend of almost 20p which BT has promised its shareholders for the current year. Again, that is not available to MCI shareholders. That figure, too, must be discounted to bring it to today's value.

Suppose, for the sake of argument, that the total of 55p in dividends should be discounted by 10 per cent. The result values BT shares for MCI shareholders at around 32p, suggesting an MCI price of around \$34. MCI's market price stands around 10 per cent below that - a fair reflection of the risk that the deal will not

go through, some analysts say.

That gap, however, raises a separate question. It is the business of arbitrageurs to exploit such differences. In this case, by selling BT shares and buying MCI. In this case, arbitrage may prove less rewarding, for various technical reasons. The most basic is that the deal will take at least a year to clear, and its success is not certain even then.

From the stock market's viewpoint, a further question is how far US investors will seek to dump MCI shares ahead of the deal's consummation. Many will have little interest in holding a British utility, and may be tempted to unload stock ahead of the rush when the deal is completed. In addition, MCI will vanish

from the basic US indices, such as the S&P500. This will cause selling by the US index funds, partly offset by UK index funds seeking to add to their weighting in BT in response to the 50 per cent increase in its shares in issue.

BT's supporters argue that US selling will not be so severe, given that MCI has traditionally paid only token dividends - 5 cents a share last year - because of its status as a growth stock. Now, they argue, MCI is maturing, and its holders will in any case look for more income. They will, therefore, welcome the chance to convert into BT, which will pay an annual dividend equivalent to nearly \$2 per MCI share.

However, that argument cuts both ways. BT intends to raise its dividend after the merger by less than its earnings. On that basis alone, the argument about the value of its offer has further to run.

THE PITFALLS

By Richard Waters

Deal may help MCI in local call market

Wall Street has taken a dim view of the effect that the next round of deregulation will have on the profitability of the US's telephone companies.

The stock prices of the local service monopolists, the Baby Bells, are down 20-25 per cent from their highs at the start of the year in anticipation of a price war. Until last week, MCI was down nearly as much.

British Telecommunications has placed a \$20bn bet that this view is wrong.

Mr Bert Roberts, the MCI chairman who has made a career of attacking bigger, entrenched competitors, made it clear over the weekend that he considered the opening of the \$100bn local market to competition as by far the biggest opportunity before his company. "This is an unparalleled bonanza," he said, adding that profit margins on local calling in the US were roughly twice what they are in the long-distance business.

Competition will undoubtedly change that: the MCI chairman himself suggested that rates could halve. Much depends, though, on how fast prices fall - and whether competition stimulates the overall communications services market to grow faster than it otherwise would.

The experience of competition in the US long-distance telephone market over the past decade provides some limited clues about what may happen. Calling rates have undoubtedly fallen (by as much as 70 per cent, says Mr Tim Price, who will run the MCI business in the US after the takeover by BT). At the same time, the market has grown to support a large number of competitors, not the least of which is MCI, which has had one of the best-performing US stocks since the early 1990s.

Local competition, though, will be different. It will not be nimble upstarts like MCI fighting for market share, but a group of very large, well-capitalised companies - the combined cashflow of the Baby Bells and GTE, a local service provider, comes to \$43bn, by Mr Roberts' calculation. That financial muscle, and a consensus among the participants that there will be room only for a small number of national communications companies promise a bloody fight.

MCI at least starts in a good position. Its main assets in the coming fight are its own local fibre-optic networks, which it says will be capable of reaching more than half of all US businesses - its main target market - by the end of March next year, as well as a history as an effective sales and marketing company.

If the merger with BT is completed, the company will also have extra financial backing for the coming battle.

Early comments by MCI executives suggest this will not change the pace of investment in local telephone services. Mr Price adds, however, that the link with BT would reduce the dilution to its earnings per share that MCI would otherwise face from stepping up the pace of its investments. Also, merging with a company which traditionally has had a less volatile share price would produce a more secure platform from which to finance the growth, he added.

THE COMPETITORS

The pressure mounts on rivals to react

Telecommunications groups and governments today to reassess their strategies as they digested the implications of the proposed merger between British Telecommunications and MCI.

Reflecting this, France Télécom yesterday called in its bankers to discuss how it might strengthen its links with Sprint Communications, the US long-distance carrier in which Deutsche Telekom and France Télécom each hold a 10 per cent stake as part of their Global One alliance.

The BT/MCI deal puts pressure on the German and French telecoms groups, both of which are heading towards privatisation, to strengthen their partnership, perhaps through cross-equity holdings.

France Télécom said yesterday this would be studied as soon as the respective values of the two companies had been established.

However both France Télécom and Deutsche Telekom emphasised that their Global One partnership with Sprint was structured differently from the BT/MCI deal and appeared to rule out a full merger.

Meanwhile, Mr Richard Brown, chief executive of Cable and Wireless, the UK telecommunications group, disagreed with the notion that megamergers would leave only a few survivors in the industry.

"I don't think the world is well served by five or six telecoms companies. There will be many and there will be rich expertise in various niche markets and capabilities and this is good. No one shoe fits all feet," he said in Singapore as he opened a C&W office.

His company was neither surprised nor "frightened" by the merger between BT and MCI.

Among the other reactions and comments yesterday: ● In Germany Deutsche Telekom said it was under no immediate pressure to review its own alliances following the BT/MCI deal.

Mr Ron Sommer, the chief executive who was heading across the Atlantic for roadshows, was said to be "relaxed" about the deal.

The company may have good reason, however, to play down the implications of the new global partnership. Already it is lugging around the world's second biggest corporate debt load - DM98bn - and it will be keen to avoid suggestions that this will increase just

as it is seeking investors to buy its stock.

However, the international telecoms industry is facing a wave of mergers and acquisitions and Deutsche Telekom may yet be forced to spend in order to keep up.

Deutsche Telekom emphasised that Global One was structured differently to Concert and that a full merger between the three partners was not likely.

● In France, France Télécom said the BT/MCI deal was a "validation" of its own global strategy and an admission that the initial alliance between BT and MCI in 1994 under which BT paid \$4bn for a 20 per cent stake in the US long-distance carrier, had failed.

The state-controlled operator, which is expected to be partially privatised next year, argued that its Global One alliance with Deutsche Telekom of Germany and Sprint of the US "went much further" than this early version of the Anglo-US alliance.

Whereas BT and MCI had tended to try to carve up the world among themselves, Global One had from the outset been an independent entity with its own business plan.

"It is not necessary to have 100 per cent of a partner to build a solid partnership," France Télécom added. "Sometimes megamergers work and sometimes they don't."

Private investors are expected to be given their first opportunity to invest in France Télécom next April in what is expected to be France's largest privatisation to date.

● In Japan there was no immediate comment on the BT/MCI deal but the move has generated interest because it is likely to have an impact on the course of future telecoms regulation.

The Japanese authorities are making a final decision on whether or not to break up NTT, the country's dominant domestic telecoms operator, which is also the world's largest telecoms carrier.

NTT is prohibited from conducting international business, and has fought against moves to break it up saying that in the changing world of global telecommunications, it helps to be big. Contributions from Michael Lindemann, Michio Nakamoto, David Owen, James Kyne and Paul Taylor.

THE MAIN MEN - By Alan Cane

With two executive chairmen, a chief operating officer, BT and MCI's Concert could seem to have a surfeit of conductors. And with two headquarters, one in London, the other in Washington, it might seem to have one podium too many.

But Sir Peter Bonfield, BT chief executive, left no doubt yesterday about who would be in charge of the new group: "A company has to have a leader, a chief executive, and that is me."

The basic management structure of the new company is essentially settled. The top executives are in place and to a large extent the managers who report to them have been chosen.

Sir Peter has made it clear that he wants MCI's free-wheeling culture to permeate BT's staid halls: "We have a powerful top management team" he told BT staff yesterday, "combining from BT and MCI some of the best talent in the telecommunications industry."

The proposed structure, however, begs many questions. Sir Iain Vallance, the patrician architect of the modern BT, and Mr Bert Roberts, MCI's master strategist, share the role of executive chairmen.

Executive chairmen in companies with strong chief executives can be a recipe for disaster as the clash at Cable and Wireless between Lord Young of Grafton and Mr James Ross last year demonstrated. Two executive chairmen should ring some warning bells. What will they do and how will they work together?

Colleagues say there is a strong affinity between the two, quite different, men. Mr Vallance is cool and aloof with a mask of imperturbability which rarely slips. Mr Roberts is a feisty engineer with a broad enthusiasm for all things technological and a wide vision of his company's future.

He is not above teasing his Scottish colleague about his title. Discussing the company's joint venture Concert Communications this year, he quipped: "Sometime after we formed this alliance I've had to start calling my counterpart Sir Iain, while he still calls me Bert."

It seems likely the two will be involved over the next

Top structure shows exchange of cultures



Who's pulling whose strings? Clockwise from top left: Iain Vallance, Peter Bonfield, Gerald Taylor and Bert Roberts

year in lobbying governments and regulatory authorities in Brussels and the US to ensure Concert's smooth passage over the legislative hurdles. They will

also be concerned with broader issues including ways of strengthening the group's operations in the Asia-Pacific region.

They will not be involved in the day-to-day running of the company which is the sole preserve of Sir Peter. Both are of an age when retirement or a move to another job had seemed on the cards. However, Mr Roberts told a US audience this week that he intended to "die in office". Sir Iain, who had been expected to move to a senior role in a major Scottish bank next year, is thought to have had his enthusiasm for telecoms revived by the excitement of the past few months.

Below the board of directors and the office of the

chief executive, where Sir Peter will work with Mr Gerald Taylor of MCI, who is well regarded for his ability to think through the implications of strategic moves, Concert will comprise five operating units.

Activities in the US, Mexico and Canada will be handled by MCI acting as an autonomous, wholly-owned subsidiary of the company led by Mr Timothy Price: "The ultimate go-getter, a powerhouse, the classical sales leader," a colleague enthused.

He is credited with the creation of some of MCI's best-known innovations, including the "Friends and Family" discount scheme, which earned MCI its first "Gold Edison" trade award, and

What they took home last year

	Salary	Total salary + bonus + benefits
BT directors		
Sir Peter Bonfield	£118,800	£165,800
Robert Brace	£118,800	£165,800
MCI directors		
Gerald Taylor	\$32,638	\$52,094
Timothy Price	\$32,638	\$52,094
Douglas Maine	\$164,700	\$360,900

*Year ended March 31 1996 **Year ended December 31, 1995 ***3 months only Source: Company accounts

HOW THE DEAL WAS DONE - By John Gapper and Nicholas Denton

Bankers' financial gymnastics unite differing traditions

The proposed merger between BT and MCI was a paradox for the investment banks involved - principally the Lazard houses for MCI, and the US and UK branches of the Rothschild group. It was an idea that had fairly obvious financial logic but required some financial ingenuity to bring about.

Because BT had had a 20 per cent stake in MCI since 1994, it did not require an inventive investment banker to suggest a merger.

However, the devil lay in the detail of uniting two companies with different histories and

widely varying shareholding traditions.

The principal investment bankers involved in negotiations from the autumn onwards were Mr Felix Rohatyn of Lazard Frères in New York, Mr John Nelson of Lazard Brothers in London, Mr Tony Alt of N.M. Rothschild & Sons in London and Mr Yves-André Istel of Rothschild Inc in New York.

As a firm structure for the deal emerged in September, BT also hired Morgan Stanley in London to advise on likely reactions to it among shareholders. Morgan Stanley was involved despite its

historic role in the US as adviser to AT&T, the main rival to MCI in the US telephone market.

The Morgan Stanley involvement was mainly led from its London office by Mr Michael Uva, a managing director, and Mr Paulo Pereira, an executive director.

Rival investment banks yesterday questioned whether its involvement would affect Morgan Stanley's relationship with AT&T in the US.

The first key meeting involving advisers came on September 24 and 25, when Mr Bert Roberts, MCI's chairman and chief executive, and Mr Gerald Taylor, presi-

dent and chief operating officer, flew to London with Mr Rohatyn for a full-scale meeting with BT and its advisers.

That meeting set the basic shape of the deal. The structure of the merged company and how it would be managed were not difficult to devise - a far more tricky issue lay in sorting out a financial structure that would bridge the gap between what were widely different companies.

This was a difficult matter, and Mr Rohatyn says that the negotiations were hard-fought. "We were close to breakdown a

couple of times. There were some very difficult moments but both sides were on the same wavelength, and industrial logic kept driving it forward," he said.

The principal challenge lay in the differing characteristics of the two shares. BT shares tended to be bought for their yield, rather than growth. In contrast, MCI was a classic growth stock that had a different class of shareholders. The main task was to find a way of pleasing two different audiences.

The structure of a special dividend to BT shareholders and a cash payment of \$2.2bn to MCI

investors was intended to bridge this gap while injecting leverage into the BT balance sheet. "The bankers devised a structure allowing BT to be a little more dynamic," says one investment banker.

Nonetheless, a final agreement was hard to achieve. After a meeting 10 days ago between Mr Alt and Mr Nelson ended in what seemed to be deadlock, the companies had to rekindle talks. A settlement was reached between Sir Peter Bonfield, BT's chief executive, and Mr Taylor shortly afterwards.

"All these things break down a

few times before they can be finally settled," says one banker. Mr Rohatyn says the talks might have had to be abandoned if relations had suffered: "There is a point where it is better to go back to the status quo ante if you are not making any progress."

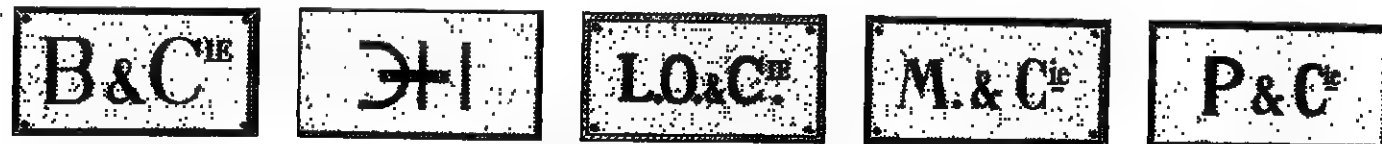
For Lazard and Rothschild, the deal has been a chance to demonstrate their expertise in one of the most fast-moving of industrial sectors.

Fees have not yet been agreed, but it is unlikely to be the largest pay-day for any bank involved, in view of the existing links between BT and MCI.

Deal
may help
MCI in
local call
market

“People say that we
live in the past. Well yes,
we have been providing
for the *future* by
managing investments
for 200 years.”

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COMPANIES AND FINANCE: UK

Higher prices and lower costs lift ABF

By Roderick Oram,
Consumer Industries Editor

Associated British Foods brought a rare burst of optimism to the hard-pressed UK food processing sector yesterday, reporting a strong upturn in profits thanks to higher prices and lower costs.

The company, the UK's largest baker and owner of Burton's biscuits, Twinning tea and British Sugar,

reported a 12 per cent rise in UK food operating profits to £252m (\$460m) on sales up 8 per cent to £3.1bn.

With strong contributions too from textile retailing in the UK, food retailing in Ireland and foreign food processing, ABF lifted group pre-tax profits by 15 per cent to £430m for the year ended September 14.

Encouraged by the higher-than-forecast profits and the company's upbeat outlook,

analysts raised forecasts for this year to about £450m. The shares closed up 8 1/2p at 425 1/4p.

"I don't know whether we're the first herald of spring or not," Mr Garry Weston, executive chairman, said. With costs and prices moving in the right direction, "we're at last getting it through to the bottom line".

But it had taken a year to get some price increases out of supermarket chains, and

he expected no more in the near future. Profits at British Sugar were down £1m at £18m because of adverse currency movements in Europe.

Excluding sugar, ABF's UK food profits were up by 45 per cent to £99m, compared with a rise of about 10 per cent for the sector as a whole, Mr David Lang, an analyst with Henderson Crosthwaite, estimated.

To continue its long-standing

diversification away from supplying UK retailers, ABF was planning further start-ups and acquisitions abroad, Mr Weston said.

In particular, "the Pacific needs our technologies and cash. We can make things happen there much faster than in eastern Europe or Russia."

ABF will continue to invest in basic food processing such as starch and sugar products. Finance is no con-

straint. ABF's net cash balance grew by £196m to £797m at year-end, earning investment income of £54m.

ABF's retailing operations lifted operating profits by 25 per cent to £69m on sales up 8 per cent to £1.51bn.

Profits from Australia and New Zealand rose by 23 per cent to £38m on sales up 20 per cent at £237m. In the US, AC Humko, acquired last year from Kraft Foods, had a successful year.

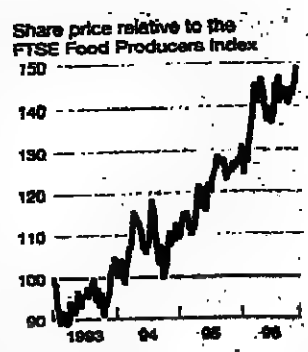
LEX COMMENT

ABF

Associated British Foods

Run like a family concern by a hands-on patriarch, ABF sits on a mountain of cash and a ragbag of mature businesses. And yet it has substantially outperformed all its peers among the food producers over the past three years, in terms of both share price and profits growth. And it continues to generate attractive returns on capital despite its £800m of poor-performing cash. Last year, it was the turn of the group's old core to flourish, with the UK food manufacturing businesses generating 50 per cent profit growth. The company is weak on brands, but it has focused on improving productivity and was helped by falling packaging costs and a bit of price inflation in the UK supermarkets. Even the bread business ceased to be a millstone, temporarily. However, aggressive price competition is returning, judging by J Sainsbury's latest moves, so the current year could be tougher. Investment in emerging markets has accelerated, particularly in China; but, as ever with ABF, this is a very long-term investment.

The best chance of further share price outperformance would be if ABF spent some cash. Its record with deals has been exceptional and virtually any acquisition would enhance earnings. However, a key to management success has been patience, so it could be a long wait. In the meantime, the shares are sitting at a comfortable premium to the sector, which is probably far enough.



TeleWest joint service scheme

By Raymond Snoddy

TeleWest, the UK's largest cable company which will soon be dwarfed by the entry of Cable and Wireless, believes that offering combined telecommunications and television packages will improve its subscription rates.

Mr Stephen Davidson, TeleWest's acting chief executive, said yesterday that trials of the combined package, Teleplus, had been positive.

"We saw significant improvement in churn [disconnection] rates of the order of 10 percentage points, higher customer satisfaction and penetration [subscription] levels and higher revenues per subscriber," he said.

The Teleplus package has now been launched in all TeleWest franchises. TeleWest has been trying to reduce churn rates, which last year were running at 46

per cent annualised.

The group announced an operating surplus of £1.5m (£2.44m) before interest, tax and depreciation for the third quarter.

Revenue in the third quarter more than doubled to £73.1m - up 45 per cent before the effect of the acquisition in October 1995 of SBC CableComms is included.

Cable television revenue also more than doubled to £29.3m, with residential telephony up 1.7 times to £32.9m. Total revenue for the year to date was £206.6m (£134.1m).

The net loss for the third quarter also doubled to £59.2m as capital investment continued. In the third quarter expenditure reached £131.1m. The network is now 61 per cent completed.

Net losses for the year to date rose 1.6 times to £176.9m as capital expenditure doubled to £361.3m. Mr Davidson said the



Stephen Davidson: 'positive' trials for the Teleplus package

emergence of C&W as the leading business in the industry, through uniting the cable interests of Nynex, Bell Cablemedia and Videotron, would be positive.

TeleWest and C&W had already agreed to co-operate on the launch of digital products in response to the

expected start of digital satellite television services by British Sky Broadcasting next year.

Later this week the cable industry is expected to announce a common approach to providing fast access to the Internet through cable networks.

CalEnergy to publish Northern offer

By Jane Martinson

CalEnergy, the US independent power producer, is to start the takeover clock for its proposed £766m (£1.2bn) bid for Northern Electric this week with the publication of its offer document.

An adviser for the group said that it was "not going to wait" for its target to publish interim results. Under takeover rules CalEnergy has 28 days from the launch of its hostile bid, last Monday, to publish the document.

Northern, a regional electricity company, could also bring forward the publication of its results - due on December 5 - to this week.

However, Mr David Morris, Northern's chairman, said yesterday the company "still had work to do" with Schroders, its financial advisers, and Ernst and Young, its accountants.

The results are expected to reveal further reductions in debt and more details of the value of the group's interests in various businesses.

Mr Morris said yesterday the interim would be the "platform" on which the group would base its defence.

However, analysts said they were not expecting too many surprises. One said: "The problem - Northern

faces is that it doesn't have a lot of room to do anything extra."

Since fighting off a bid by Trafalgar House almost two years ago, Northern has returned £240m to shareholders in a defence which has left it with the most highly geared balance sheet in the sector.

At the same time Mr Morris said the company had not been in talks with any other potential predator. It was "far too early" to talk about white knights, he said. "We haven't even got a bid on the table yet."

Analysts said they would be surprised if any of the "usual suspects" would launch a rival bid at this stage when there were four other independent regional electricity companies to buy: Yorkshire, Southern, East Midlands and London.

There is more uncertainty over the opinion of Professor Stephen Littlechild, the industry regulator, who is to advise the Office of Fair Trading over whether the bid should be allowed.

Although Prof Littlechild has allowed three other US groups to take over regional electricity companies, analysts said the closeness of the UK general election and the dwindling number of independent MPs may also have a bearing upon the outcome.

NEWS DIGEST

TI stands by bid price for Forsheda

TI Group yesterday warned disgruntled investors in Forsheda, the Swedish polymer engineering company, that it had no plans to raise its £189m (£308m) bid.

The announcement was made to stock exchanges in London and Stockholm after TI representatives met Mr Stephen Peak of fund manager Henderson, the most outspoken of investors demanding a higher price.

TI also emphasised its right to declare its offer unconditional with acceptances of less than 90 per cent. Mr Tony Sumner, corporate affairs director, said: "We have made an offer for Forsheda that we think is full and fair. We have no intention of increasing it."

The bid, which closed on Friday, is part of a drive by the UK engineering and aerospace group to double its polymer engineering sales to £300m a year. Its offer has the backing of Forsheda's board and its advisers, Enskilda Securities. It has irrevocable acceptances from Agora, the holding company of the founding family. These give TI sway over 20.6 per cent of the shares, and 63.6 per cent of voting rights.

The B shares closed down SKR1.5 at SKR234 in Stockholm last night, below TI's offer of SKR235.

Henderson, which has 12.5 per cent of the B shares, has claimed investors with up to 20 per cent believe Forsheda is worth more than TI's offer. It has argued that investors can prevent TI from reaching 90 per cent, necessary before minority investors can be required to sell their shares. But Mr Sumner said this need not pose a problem. TI controlled quoted companies with minority investors in Japan and India, he said.

Ross Tyeiman

Ladbroke in US sale

Ladbroke, the hotels and betting group, yesterday said London & Leeds, its US property arm, had sold the 375,000 sq ft Ballston Station development in Arlington County, Virginia, for \$56.2m to the State Teachers Retirement Board of Ohio. London & Leeds has received \$2.6m with the balance of \$53.6m due in December. Last year's net rental on the eight-storey building was \$5m.

The sale is part of Ladbroke's policy of withdrawal from commercial property. In the past two years its portfolio has been cut from £1bn to £185m. The proceeds will be used to reduce debt and invest in core activities.

Lofs passes dividend again

London & Overseas Freighters, the Bermuda-based oil tanker operator, yesterday unveiled an 80 per cent fall in pre-tax profits to \$500,000, and passed its dividend despite increasing net operating revenues 30 per cent to \$20.5m in the six months to September.

Demand for its vessels in the Caribbean was due to competition and a fall in the number of oil tanker movements, plus the continued reduction of oil stocks.

Intrum Justitia merges division

By Clay Harris

Intrum Justitia, the debt collection group, has merged its credit insurance management subsidiary, the largest company in the sector, with the fast growing number two.

The deal, which brings privately owned Credit Management Resources into the Intrum fold, also secures the services of Mr Christian Hoy, who founded CMR in 1990. He is managing director of the new company, CMR Intrum Justitia.

Intrum Justitia holds a 51 per cent stake in the new company, even though its Intrum Insurance Services subsidiary has twice the turnover of CMR. This reflects CMR's higher return on premium income. No figures were disclosed.

Credit insurance managers provide umbrella policies for smaller companies, enabling them to gain cover at a lower cost and without incurring administrative overheads.

CMR Intrum Justitia accounts for about 75 per cent of the UK market for independent policy managers. It has an umbrella policy with NCM, the Dutch credit insurer which bought the short-term business of Britain's Export Credits Guarantee Department when privatised in 1991. It also checks on the credit worthiness of its clients' customers.

The new company will initially provide cover for about £150m of business, with exports accounting for 80 per cent, said Mr Paul Austin, operations director.

Boston banks sold for \$87m

By George Graham,
Banking Correspondent

Citizens Financial, the US retail banking subsidiary of Royal Bank of Scotland and Bank of Ireland, is to pay \$87m cash to acquire Grove Bank, a savings bank in Boston, Massachusetts.

The price includes Greater Boston Bank which Grove was already taking over. Grove has \$699m in assets and seven branches in metropolitan Boston, while Greater Boston Bank brings another three branches and assets of \$167m.

The price is estimated to represent about 1.8 times Grove and Greater Boston's combined book value at the time of completion, probably early next year.

The Citizens Financial group took its current form this year when Royal Bank merged its Citizens subsidiary, based in Rhode Island, with Bank of Ireland's First New Hampshire Bank. Royal Bank owns 76.5 per cent of the combined group, while Bank of Ireland has 23.5 per cent. Grove is Citizens' 10th acquisition since 1992.

T&N wins US legal reprieve

By Tim Burt

T&N, the motor components and specialist engineering group, has won a legal reprieve over its North American asbestos liabilities.

The company, formerly one of the UK's largest asbestos suppliers, said yesterday that the US Supreme Court would re-examine an earlier ruling that threatened to snuff a new fixed payment system for victims of asbestos-related diseases.

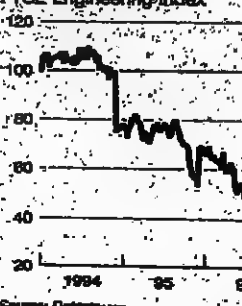
T&N, which has paid more than £350m (£571m) in compensation in the past 10 years, had warned that it would have to set aside an extra \$50m in asbestos provisions if the case had been thrown out.

Sir Colin Hope, chairman, said the interim ruling meant the "Georgine Settlement", a class action setting fixed payments for sufferers of asbestos-related diseases, would remain in place until the case was heard next year. That is expected to require provisions of £25m in the second half of this year and £40m-£50m in 1997.

The possibility of finding

T&N

Share price relative to the FTSE Engineering Index



Source: Datastream

insurance cover to reduce future asbestos liabilities would be explored.

The positive news, however, was tempered by a cautious trading statement which warned of difficult conditions in the diesel components, heavy duty truck and industrial markets.

To cut costs, T&N will accelerate destocking and redundancies. Up to 2,000 jobs are expected to go this year, and a further 2,000 in 1997, out of a workforce of 32,000. It is also thought to be considering a non-core disposal programme.

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LAW

Tunnel pact restored



EUROPEAN COURT

A European Commission decision imposing conditions on a capacity-sharing agreement between Eurotunnel and the international train operators SNCF and British Rail was based on an error of fact and therefore had to be annulled, the European Court of First Instance ruled recently.

SNCF and British Rail had applied to the court for annulment of a 1994 Commission decision concerning the 1987 agreement between Eurotunnel and the two railway companies granting them the right to 50 per cent of the capacity of the Channel tunnel for the duration of the contract.

The contract was notified to the Commission, but having granted it an informal exemption from the competition rules for three years with no conditions attached, the Commission took a different view when it took a formal decision.

The Commission had decided that since it considered that the reservation for the two rail companies of all the hourly paths available for international trains was neither essential to them for the provision of their transport services nor to the success of the project, the exemption should be made subject to conditions. Those conditions required the companies to make 25 per cent of their allocated capacity available to other rail operators.

SNCF and British Rail were supported by the UK government, Eurotunnel and European Passenger Services, which argued that the Commission's decision was based on error of fact. They submitted that the error vitiated not only the assessment of how the contract would restrict competition, but also the examination of the contract in the light of the exempting provisions and regulations under the Treaty of Rome.

Having analysed the Commission's approach, the

court noted that contrary to what was stated in the decision, the contract did not provide for half of the tunnel capacity to be reserved for shuttles.

Nor did the contract prevent capacity being made available to other railway companies which wished to operate international trains. The court concluded that the Commission had misinterpreted the contract, and that this could not be explained by a modification to the contract after the adoption of the decision.

The Commission's assessment of the restrictive effects of the contract on competition in relation to other rail companies was therefore wrong, and the error of fact also influenced the assessment of the contract in the light of the Treaty and regulation exemption provisions.

It concluded that if the Commission had correctly assessed the opportunities available to other rail companies to obtain the hourly paths necessary to run international trains through the tunnel, it might not have deemed it necessary to impose conditions on SNCF and British Rail. Alternatively, the Commission could have imposed conditions on Eurotunnel as well, thereby enabling less onerous conditions to be imposed on the rail companies.

Since it was not for the court in annulment proceedings to substitute its own assessment for the Commission's, that part of the decision which imposed the disputed conditions on SNCF and British Rail had to be annulled. Those conditions constituted an essential part of the decision, inseparable from the remaining provisions, and the decision was therefore annulled in its entirety.

T-79/94 and T-80/95: Sociétés Nationales des Chemins de Fer Français and British Railways Board v Commission, CFI 8CH, October 22 1996.

BRICK COURT CHAMBERS, BRUSSELS

New heads at Mexican group

Cemex, the Mexican cement multinational, has appointed Hector Medina as its new finance and planning director following the death last month of Gustavo Caballero, who had held the post since joining the company in 1988.

Caballero was a childhood friend of Lorenzo Zambrano, the chairman and chief executive officer of Cemex. Those who worked under Caballero over the past eight years say the deep trust Zambrano deposited in his chief financial officer gave Caballero the freedom to transform Cemex from a domestic cement company to the third largest cement producer in the world, with operations in 22 countries. Medina headed Cemex's Mexican operations until becoming Cemex finance and planning director. Francisco Garza, who ran Cemex's subsidiary in Venezuela, will take over Medina's job at Cemex Mexico. *Leslie Crawford*

Trucks role for Gigou

The career of Michel Gigou, the amiable 60-year-old Frenchman

who has run Renault's car operations in the UK for the past five years, is taking a heavyweight turn. From December he will be heading Mack Trucks, the North American heavy truck producer controlled and owned by the French vehicles group.

Gigou, a 24-year Renault veteran who was European marketing director before taking over the UK slot, is to succeed Pierre Jocu as Mack's president and chief executive. Jocu, 60, who has been Mack's chairman as well as president and chief executive since moving to the job in March 1995, is leaving to work independently in the field of total quality management.

Gigou will not inherit the chairmanship, that is being assumed by Shmoua Levy, chairman of Mack's parent, Renault Vehicules Industriels. But he will have the task of continuing Mack's recovery from its near-terminal sales collapse of the 1990s, when Renault came very close to shutting the operation.

At one time Mack was one of the foremost heavy hitters in the US truck industry, accounting for nearly 20 per cent of sales of 'Class 8' trucks - those over 15 tonnes - but that had almost halved by 1992.

INTERNATIONAL PEOPLE

The company has slowly been clawing back market share, and currently has over 12 per cent.

Gigou's own replacement at Renault UK is Benoit Marloff, currently vice-president for corporate and fleet sales in France. *John Griffiths*

Bristol-Myers Squibb

Bristol-Myers Squibb has recruited British molecular biologist Peter Ringrose to head its research programme, in an effort to beef up its drug development effort. In recent years, the US pharmaceuticals giant has been less successful than its peers in bringing 'blockbuster' drugs from inception to market.

Ringrose has a proven track record in that area. He comes from Pfizer, where he ran the company's successful UK research facility, which has produced some of Pfizer's best-selling products such as the anti-fungal treatment Diflucan. Bristol-Myers plans to spend more than \$1bn on pharmaceutical research in 1996, and has 42 compounds in active development.

Ringrose, aged 51, received his graduate and doctorate degrees from Cambridge University. Before joining Pfizer in 1982 he held post-

Goodyear's drive

Goodyear, the north American tyres giant, has created a new post of managing director to spearhead a renewed drive into non-tyre business in Europe. The first incumbent, former Gates Rubber vice-president Tony Roberts, will be responsible for expanding Goodyear's sales of transport and industrial products in the region.

Non-tyre business is by no means a fringe activity for the world's third-biggest tyre maker. Its engineered products division, within which Roberts will operate, has sales of around \$1.2bn a year.

Roberts' appointment is expected to herald not just a sales drive but the creation of additional manufacturing and distribution facilities for the products across Europe.

Goodyear already claims to be a world leader in conveyor belts, industrial hoses and power transmission belts; now it is eyeing new markets such as air springs, transport hose and moulded rubber products.

Most of these are areas with which British-born Roberts, 51, is long familiar. His 24 years with Gates included - apart from a stint as president of Gates Canada - a long run as managing director of its hose and connector division. *John Griffiths*

Pirie for SocGen

Robert Pirie, a former chief executive officer of Rothschild Inc, has been appointed vice chairman of the investment banking division of Société Générale USA. He will also be a senior member of Société Générale's international mergers and acquisitions group. Prior to joining the US arm of the French bank, for the last three years Pirie has been senior managing director at Bear Stearns.

Société Générale is one of a number of large European banks currently trying to build up its US investment banking business. *Tracy Corrigan*

ON THE MOVE

He succeeds Kevin Bousquet, now chief operating officer.

■ Peter Bezemer, 45, has been named general manager of the AMSTERDAM SECURITIES DEPOSITARY, due to become part of Amsterdam Exchange Holding. He was previously chief operating officer of MeesPierson Holdings in London.

■ Paolo Pierri, a former manager at Italian state-controlled telecoms holding company Stet, has resigned from the board of troubled Italian financial holding group GEMINA.

■ David Gargac has resigned as executive vice-president of CINCINNATI BELL and chief executive of Cincinnati Bell Telephone, which will report to James Orr, group chief operating officer, until a successor is found.

■ Ali Ghannam, 38, a senior official at the trade ministry, succeeds Mehdi Benbouachta as managing director of SOMACA, Morocco's leading car assembly firm.

■ Paul Gerbeles becomes a director of the DFB Futures exchange and the FRANKFURT STOCK EXCHANGE. He has served on the board of Deutsche Boerse, which operates both

exchanges, since August.

■ Alan Horn succeeds Graham Savage - who recently resigned - as chief financial officer of ROGERS COMMUNICATIONS.

Canada's biggest cable TV operator. He was previously vice-president of administration.

■ Steve Land, 47, becomes vice-president of information technology at BOWATER INCORPORATED, the largest producer of newsprint in the US. He replaces Aubrey Rogers who is retiring; he previously worked for El du Pont de Nemours.

■ Knok Khoun Chen, the Malaysian tycoon whose Kerry Beverages holds a number of Coca-Cola franchises in China, has become a non-executive director of COCA-COLA AMATIL, the Australian based soft drinks group in which he recently acquired an interest.

■ Zaman Abdul Ghani, assistant governor of the Malaysian central bank, has been appointed an executive director of the INTERNATIONAL MONETARY FUND for two years from November 1.

■ Steven Stanbrook, president of international operations for

COMPUERVE, the on-line computer services group, is resigning to become

executive vice-president of SC Johnson, a consumer products firm.

■ Russell Meyer Jr, chairman and chief executive of Cessna Aircraft, has resigned from the board of VANGUARD AIRLINES.

■ Meto Basol becomes chief executive and general manager of TURK MERCHANT BANK, a Bankers Trust joint venture.

Vural Aldisik, founding partner, will retain an advisory role as chairman.

■ Alan Roy Dymally succeeds Day Brigham as vice-president and chief legal officer at EATON VANCE, the Boston-based mutual fund manager.

■ Dick Snyder, joins COMPAQ COMPUTER from Dell, in the new post of senior vice-president and general manager, worldwide sales, marketing, service and support group. Alan Lutz joins from Unisys as senior vice-president and general manager of a new communications products group. Jim Schradt, previously with the Carfax Group, joins as vice-president and general manager north America.

■ Enak Aminuddin Yusuf

Lana, managing director of METACORP, Malaysian toll road operator and property developer, has resigned.

Enak Baharin Salleh replaces him.

■ Randy Reiss has resigned as executive vice-president of WALT DISNEY STUDIOS.

■ Dennis Mull becomes vice-president of worldwide retail sales for PNY ELECTRONICS, the privately-owned US computer memory company.

■ Joaquin Avila, managing director of SANTANDER INVESTMENT, has resigned. Jose Antonio Diaz becomes head of the Madrid merchant bank's New York office, replacing Joaquin Avila.

■ Paul Manson, becomes chairman of the newly consolidated LOCKHEED MARTIN ELECTRONIC SYSTEMS CANADA. Larry Ashley, president of the existing Lockheed Martin Canada, becomes president and chief executive.

■ Louis Leong is the new director of corporate affairs at HONG KONG TELECOMMUNICATIONS, where Rick Tang has resigned.

■ Ursie Fairbairn joins AMERICAN EXPRESS on December 1 from Union Pacific, as executive vice-president of human

resources and quality.

■ Andrea Jung, 38, president, global marketing at Avon Products, joins the board of DONNA KARAN INTERNATIONAL, the US designer which floated in June.

■ Robert Schult, president and chief operating officer of Nestlé USA, has been appointed a non-executive director of KYBOR INDUSTRIAL, a producer of commercial refrigeration.

■ Mary Doan takes a new role as worldwide director of client service applications at SAATCHI & SAATCHI ADVERTISING.

WORLDWIDE, with a brief to co-ordinate information on new technologies.

■ William McCarty has resigned as general manager of the LOS ANGELES DEPARTMENT OF WATER & POWER, the largest municipal utility in the US, effective from February 1.

International appointments

Please fax information on new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'line'.

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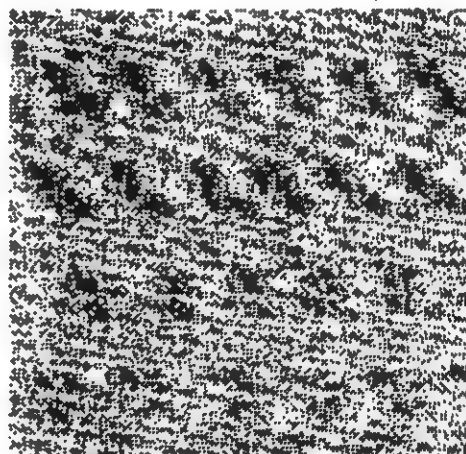
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October 1996

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The borderless economy is quickly evolving from yesterday's optimistic scenario into today's exciting reality, and the Bank of Tokyo-Mitsubishi is making this transformation happen by providing world-class services through one of the most extensive international networks of any major financial institution.

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INTERNATIONAL CAPITAL MARKETS

BNP cancels issue days after launch

INTERNATIONAL BONDS
By Samer Iskandar
and Conner Middelmann

A \$150m bond issue for Banque Nationale de Paris was abruptly pulled yesterday, just two days before it was due to close.

It was unclear yesterday why the BNP bonds were withdrawn just days after the launch. The issue was of undated floating-rate notes - which pay a variable interest rate.

CS First Boston, the lead manager, said the withdrawal had come "as a result of press reports concerning the French government's possible sale of CIC" - a bank roughly half the size of BNP that it is reported to be bidding for, along with other French banks.

However, one senior banker in Paris insisted that the situation was public knowledge before the issue process started.

"The fact that buying CIC can potentially affect BNP's credit quality was obvious to everybody," he said. "This should have been noted by the lead manager during the 'due diligence' process."

One possible explanation for the mix up could be the fact that, as part of its confidentiality agreement with the French authorities, BNP was not allowed to comment publicly on any negotiations involving CIC.

But this argument was bought some bonds under SEC Rule 144a, dealers said. Merrill Lynch and SBC Warburg led the deal.

BNP was not in a position to follow the issuance recommendations of IPMA (the International Primary Market Association). It should not have issued the bonds in the first place.

In the sterling sector, Friends Provident, the UK life insurer, issued \$250m of undated subordinated call and step-up notes, which were largely pre-placed ahead of launch and ended the day fully sold, with the yield spread narrowing to 132 basis points over gilts from a launch level of 135.

The bonds were placed mainly with UK institutions, although US investors bought some bonds under SEC Rule 144a, dealers said. Merrill Lynch and SBC Warburg led the deal.

A \$150m floating-rate offering for Irish Permanent, the

New international bond issues

Issuer	Amount	Coupon	Price	Maturity	Final	Spread	Bookrunner
US DOLLARS							
Barco SCN (Barco)	50	6 1/2%	98.850	Nov 2004	1.00%	275/32	Barclays de Zeeuw
SE 24-0000							
VW Car Lease No 2, 1996	100	6 1/2%	100.00	Feb 2000	0.125%		CSFB-Eurobank
REPUBLIC OF ARGENTINA	200						
10.125	98.200	102.25	Dec 2003	2.50			Barclays de Zeeuw
ST. PETERSBURG							
Friends Provident Finance	215	0.125	98.200	undated	0.025%	+133/32	Merrill Lynch
Irish Permanent Treasury	150	6 1/2%	98.850	Nov 1999	0.125%		Merrill Lynch
EUROBOND							
10.125	102.25	Dec 2004	1.00%				Credit Europe

former building society which converted to bank status in late 1994, got a more lukewarm reception, being deemed tightly priced at a re-offer spread of 5 basis points over Libor, which widened to 8 points after the bonds were freed to trade. Nevertheless, lead Merrill Lynch saw good demand from financial institutions in the UK and abroad.

The D-Mark sector saw the second securitisation for VW

Car Lease, which raised DM465m in triple-A rated tranche-A bonds and DM25m in subordinated, A2/A+ rated tranche-B bonds. Both tranches are backed by car lease receivables and cash collateral.

Moody's, the rating agency, has placed Germany's sovereign foreign currency debt ceiling on review for possible upgrade, given "the improvement in the fiscal balances in the past few

years as well as the stronger political resolve to continue with policies consistent with EU convergence."

It also upgraded Qatar's sovereign ceiling for ratings of long-term foreign-currency bonds and bank deposits to Baa2, based on the country's improved economic and financial prospects, "stemming primarily from the ongoing development of its vast North Field gas reserves".

CAPITAL MARKETS NEWS DIGEST

Liffe enjoys its busiest month yet

Increasing volatility over European monetary union and last month's rise in UK base rates led to Liffe, the London International futures and options exchange, recording its busiest month ever in October. Trading levels beat the exchange's previous record, set in February this year, with an average daily turnover of £190.1bn.

The exchange traded a total of 18.4m futures and options contracts, an increase of 68 per cent on the same month in 1995. The average daily volume was more than 800,000. New records were set in trading in D-Mark, lira and Swiss franc interest rate futures. A big increase was seen in options on Italian BTP futures, with 382,000 traded in October, compared with the 285,000 in June this year.

Richard Adams

Ukraine plans two eurobonds

Ukraine plans two eurobond issues next year, according to Mr Valery Litvitsky, the president's economic adviser, who said a presidential decree would be issued in "two to three weeks". A trial issue of \$100m would probably be followed by a \$250m bond, he said, adding that the government is also considering a samurai bond placement in the Japanese domestic bond market. The central bank would be the agent and the ministry of finance the issuer.

Several western investment banks - including Nomura, SBC Warburg and Merrill Lynch - have held discussions with Kiev recently. Ukraine has stepped up efforts to tap the international capital markets after Russia successfully obtained a credit rating in September. Ukraine, which has no outstanding debts left from the Soviet era, is likely to be a large borrower. It has moved quickly in recent weeks in response to growing appetite among investors for sovereign bond issues from the former Soviet Union.

Matthew Kaminski, Kiev

Prague to raise Kc7.5bn

The city of Prague is set to make its second foray into international capital markets to raise up to Kc7.5bn, which will be made available to residents for mortgage purposes through a municipally-owned bank.

Mr Jan Koukal, mayor of Prague, said the capital-raising would be either a bond issue through První Mestská Banka, in which the city has a majority stake, or a syndicated loan. Approaches have already been made to a number of international banks, including Chemical of the US and Deutsche Bank, about leading a syndicate.

The money would be used to offer mortgages through the municipal bank. Mr Koukal expects the local authority to vote on the move before the year-end and for the issue to be launched by February 1997.

Two years ago the city raised \$250m in the first eurobond issue by a municipal authority from post-communist Europe. Prague is rated A by Standard & Poor's, and Mr Koukal said it could be upgraded after elections to a new senate next week.

Vincent Boland, Prague

Bunds ignore weak industrial production data

GOVERNMENT BONDS

By Samer Iskandar
in London and Lisa Branstetter
in New York

European bond markets traded quietly yesterday, while US traders braced themselves for today's presidential election.

German bunds closed roughly unchanged, ignoring weaker than expected industrial production data.

Liffe's December bund future settled at 96.48, down 0.08, while in the cash market, the 10-year benchmark bond was 0.03 lower at 101.54.

German industrial production was down 1.8 per cent month-on-month in September. Analysts, however, warned that the economic ministry intended to revise the data upwards.

"The wording of the release is more important than the figure itself," said Mr Adrian Owens, an economist at Julius Baer Investments. "But no matter how important the revision is, it is unlikely to bring the data into positive territory."

Mr Kirt Shah, chief market strategist at Sanwa International, believes bund traders are increasingly discounting a rate rise.

As a result, the September 1997 euroterm future has fallen from 96.60 two weeks ago to 96.27 yesterday, while the German yield curve has flattened by 30 basis points between the two-year and 10-year maturities, to 237 points yesterday.

UK gilts had a quiet but negative session as the release of stronger than expected monetary statistics caused some profit-taking.

Liffe's December long gilt future closed 1/8 lower at 109 1/8.

In the cash market, the 10-year yield spread of gilts over bunds widened by 2 basis points to 184 points.

"At these levels, gilts look very attractive," said Mr Owens, of Julius Baer.

Although last week's rate rise has scared investors, the longer term it should have a reassuring effect," said Sanwa International's Mr Shah.

He believes the market will benefit from sterling's firmness and the generous absolute level of yields. "With real yields higher

than those of Spanish bonds, the underlying value of gilts remains positive," he said.

Mr Owens said tomorrow's publication of the Bank of England's inflation report "will give an indication of whether the governor is still looking for more rate rises".

Europe's high-yielding markets were mixed, with Italian BTPs outperforming other bonds, while Spain and Sweden lagged behind.

Mr Shah pointed out that there was little room left for further Euro-related yield convergence. "BTPs can still tighten to around 200 basis points over bunds, but this is modest compared to the recent performances we have seen," he said.

"Furthermore, it is now clear that the lira's re-entry into the European exchange rate mechanism will take

place at around L1,000 [against the D-Mark], so there is not much scope for currency gains either."

US Treasury prices recovered some of Friday's losses yesterday, but volumes were low as investors awaited the outcome of today's presidential election and this week's stock market.

On Wednesday, the benchmark 30-year Treasury was up 1/8 at 101 1/2, yielding 5.756 per cent. The December 30-year bond future rose 1/8 to 112 1/8.

Traders said they expected activity to remain subdued at least until Wednesday when the elections results are in. Few Wall Street houses plan to have traders at their desks late on Tuesday to monitor election

results - but some said the market could move if there were any drastic changes in the political landscape.

Mr Kevin Shuler, a senior fixed-income trader at First Chicago Securities, said the market has largely priced in the status quo - re-election for President Bill Clinton with the Republican party retaining control of Congress.

"On Wednesday we could see some fireworks [on the market] if there is a surprise or a sweep either way," he said.

Also occupying traders is the new supply set to come to the market this week. This afternoon the Treasury is to auction \$18.25bn in three-year notes; on Wednesday, it will sell \$10bn in 10-year notes, and on Thursday it is to sell \$10bn in 30-year bonds.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS									
Coupon	Rate	Price	Day's change	Yield	Week ago	Month ago	Year ago	5-year	10-year
Australia	6.75	110.08	88.9900	+0.140	7.56	7.42	7.82		
Canada	5.875	97.08	98.4000	-0.140	6.08	6.08	6.05		
Denmark	7.00	120.08	106.8500	-0.250	6.15	6.12	6.28		
France	8.00	108.08	107.2000	-0.020	8.35	8.38	7.05		
Germany	8.50	102.08	102.2500	-0.050	8.50	8.50	8.28		
Italy	8.00	106.08	103.7500	-0.140	8.98	8.00	6.14		
Japan	8.25	104.08	101.5400	-0.020	8.03	8.03	8.09		
UK	8.00	108.08	108.5500	-0.250	7.80	7.80	7.11		
US	8.50	102.08	103.0100	+0.220	6.01	6.15	6.86		
Spain	8.00	108.08	108.3100	-0.130	7.81	7.76	8.02		
Sweden	8.00	102.08	101.8200	-0.350	7.32	7.18	7.48		
US Gilts	8.00	102.08	102.3500	-0.050	7.22	6.85	7.02		
8.00	102.08	108.2500	-0.020	7.84	7.87	7.88			
8.00	102.08	101.0000	-0.020	6.15	6.15	6.15			
8.75	102.08	101.0100	-0.020	6.87	6.85	6.85			
8.00	102.08	104.0800	-0.230	6.40	6.35	6.43			

London clearing, New York mid-day. 7.00% including withholding at 12.5 per cent payable by non-resident. Source: IHS Global Vantage

US INTEREST RATES

Treasury Bills and Bond Yields			
Rate	Yield	Yield	Yield
Prime rate	8 1/2%	One month	5.77
Three month	5 1/2%	Three month	6.10
Five year	5 1/2%	Five year	6.10
Ten year	5 1/2%	Ten year	6.10
30 year	5 1/2%	30 year	6.10

BOND FUTURES AND OPTIONS

FRENCH									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

Est. vol. last, Cals 6,854 Puts 6,844. Previous day's open int. Cals 16,858 Puts 16,165.

GERMANY

NOTIONAL GERMAN BOND FUTURES (LFFE) DM250,000 100ths of 100%									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

Est. vol. last, Cals 6,854 Puts 6,844. Previous day's open int. Cals 16,858 Puts 16,165.

UK

NOTIONAL UK GILT FUTURES (LFFE) £50,000 100ths of 100%									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

Est. vol. last, Cals 6,854 Puts 6,844. Previous day's open int. Cals 16,858 Puts 16,165.

JAPAN

NOTIONAL JAPANESE GOVT. BOND FUTURES (LFFE) ¥100m 100ths of 100%									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

Est. vol. last, Cals 6,854 Puts 6,844. Previous day's open int. Cals 16,858 Puts 16,165.

OTHER FIXED INCOME

NOTIONAL US TREASURY BOND FUTURES (COT) \$100,000 100ths of 100%									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

Est. vol. last, Cals 6,854 Puts 6,844. Previous day's open int. Cals 16,858 Puts 16,165.

EUROBONDS

NOTIONAL EURO BOND FUTURES (LFFE) DM250,000 100ths of 100%									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

Est. vol. last, Cals 6,854 Puts 6,844. Previous day's open int. Cals 16,858 Puts 16,165.

CONVERTIBLE BONDS

NOTIONAL EURO BOND FUTURES (LFFE) DM250,000 100ths of 100%									
Strike	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
104	1.50	-	-	-	0.07	0.20	0.54		
106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24	0.01	-	-	-	-	-	-

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106	0.75	-	-	-	0.15	0.20	0.54		
108	0.25	0.56	-	-	0.98	-	-	-	-
110	0.05	0.24							

EAST AFRICAN CO-OPERATION

Learning from the past

East Africa's three presidents are preparing their countries for economic integration, writes Michael Holman

Twenty-five years after the collapse of the East African Community, the leaders of Kenya, Uganda and Tanzania are offering a fresh vision for the region.

In a pledge first made some 18 months ago, the countries' presidents have committed themselves to increased economic co-operation and the creation of a single market.

The new attempt to co-ordinate the development of the region, formally launched in March this year with the establishment of the secretariat of the Commission of East African Co-operation, has been able to build on the foundations of the former Community.

Several institutions, such as the East African Development Bank, survived the collapse. Others, including the jointly-owned regional airline and other state-run corporations have been dismantled, but it is unlikely that they would have survived the move towards privatisation of recent years.

"The driving force this time will be individuals, not parastatals," says Francis Muthaura, executive secretary of the Commission. "Now is the time to create an enabling environment for business, including allowing power, road and telecommunication linkages, rather than joint enterprises."

The Commission, working from the Community's old headquarters in Arusha, has an ambitious agenda. It ranges from the harmonisation and rationalisation of tariffs, evolving joint fiscal and monetary policies, and exploring the possibilities of a customs union.

But there are other targets which, in theory at least,

should be easier to implement, whether developing a regional tourism policy, co-ordinating electrical power projects, or introducing a standard travel document.

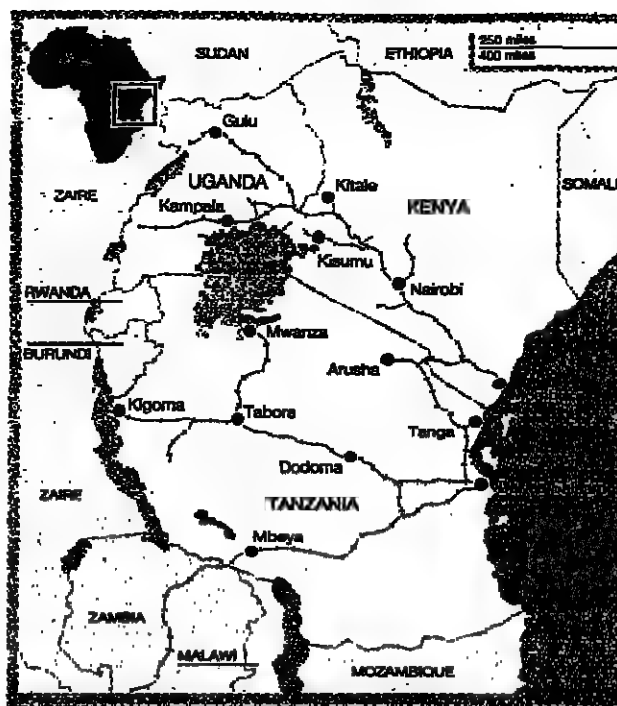
Given the dismal record of trade associations in Africa, the odds might seem against this latest venture succeeding, but many of the strains that brought about the Community's demise have been eased or resolved.

No longer are the countries divided by rival ideologies and different economic policies, and the tensions of the past between capitalist Kenya and socialist Tanzania and Uganda have disappeared. As trade is liberalised, foreign exchange controls eased, and all three governments press ahead with privatisation, the region's business and investment climate has dramatically improved.

Without these changes, the Dutch airline KLM would not have taken a stake in privatised Kenya Airways, and South African companies would not be investing in projects which include cotton gineries in Uganda, a brewery in Tanzania, and hotels in Kenya. Nor would the Acadia Fund, in which the Commonwealth Development Corporation has an interest, last month have launched a \$20m private equity fund to invest in Kenyan companies.

Co-operation is starting to bear fruit in other areas. The three currencies are now convertible, the ports are under better management, and central bank governors meet regularly.

But the three countries are



KENYA
Independence: December 12, 1963
Parliament: Dominated by the Kenya African National Union.
Area: 580,367 sq km
Currency: Kenya shilling (KSh)
Exchange rate: 1995 (avg) S=KSh56.02
October 30 1996 S=KSh55.83
Foreign debt: \$7.27bn/debt service ratio: 33% (1994)
Main exports: Tea \$350m; coffee \$281m; horticulture \$207m
Main imports: Industrial machinery \$507m; vehicles \$383m; crude petroleum \$225m; iron and steel \$200m
Main trading partners:
Exports - Uganda 18%; Tanzania 13%; UK 10%; Germany 8%;
Imports - UK 13%; Japan 11%; S. Africa 7.8%; Germany 7%; UAE 7%.



President Daniel arap Moi

UGANDA
Independence: October 9, 1962
Parliament: Dominated by Mr Museveni's National Resistance Movement. Political parties were ordered to suspend active operations in 1986, leaving the country a de facto "no-party" state.
Area: 241,139 sq km (including 44,081 sq km inland water).
Currency: New Uganda shilling (USh)
Exchange rate: 1995 (avg) S=USh968.9
October 30 1996 S=USh1066.2
Foreign debt: \$3.47bn/debt service ratio 44% (1994)
Main exports: Coffee \$384m.
Main imports: Machinery and transport equipment \$169.0m, manufactures \$114.7m (1992).
Main trading partners:
Exports - Spain 23%; France 14%; Germany 14%; Italy 10%;
Imports - Kenya 26%; UK 12%; Japan 8%; India 5.5%.



President Yoweri Museveni

TANZANIA
Independence: Tanganyika: December 9, 1961; Zanzibar: December 10, 1963
United Republic of Tanzania established April 26, 1964.
Parliament: The former sole political party, the Chama Cha Mapinduzi (CCM) emerged the largest party following multiparty elections earlier this year. Zanzibar retains its own parliament.
Despite the island's degree of autonomy, the union remains an issue of controversy.
Area: 945,087 sq km.
Currency: Tanzanian shilling (TSh)
Exchange rate: 1995 (average) S=TSh574.78
October 30 1996 S=TSh583.85
Foreign debt: \$7.442bn/debt service ratio 20.4% (1994)
Main exports: Coffee \$115.2m, cotton \$104.8m (1994)
Main imports: Machinery and transport equipment \$545.1m, textiles and clothing \$251.5m (1994)
Main trading partners:
Exports - Germany 9%; Japan 8%; India 8%; UK 5%;
Imports - UK 10%; Kenya 9%; Japan 7%; Saudi Arabia 6%.



President Benjamin Mkapa

Message from the presidents

"We the Presidents of Kenya, Tanzania and Uganda have resolved to deepen and broaden the economic co-operation between the three countries for the short, medium and long-term benefit of the people."

"We have therefore created the instrument - the Commission of East African

Co-operation - whereby we can now strive for the development of a single market and eventual economic integration."

"With the geographical ties, and our own common history and culture, it is our conviction that in time, the East African region will become one of the most

Important trading blocks in the entire continent."

"We therefore invite international investors to share in the development of our region and also call on the donor community to support our endeavours."

Daniel arap Moi, Benjamin Mkapa, Yoweri Museveni

manufacturing sector risks being overwhelmed by better developed Kenya.

This will change in time, says Mr Muthaura: "A free market is going to generate competition and already we are seeing a lot of cross-border investment. This is the future, rather than remedial measures. If you have free movement of capital and goods and labour, these imbalances will be sorted out in the long term."

All three countries, he says, have something to gain: "Tanzania has strong advantages in some key sectors - power, minerals, and soon it will start pumping gas from Songu Songu. Uganda has advantages in the agricultural sector and energy potential. Once the linkages are established we are likely to see a total transformation in the balance of trade. It is now overwhelmingly in Kenya's favour."

Ensuring that "everyone in the region feels they have a stake in co-operation", as Mr Muthaura puts it, is clearly essential to the success of co-operation. But if it

is to get the impetus it needs, the concept must be put into practice with more enthusiasm and imagination.

Donors must do more to tailor their programmes towards regional co-operation. Other regional bodies, such as the Southern African Development Community, must be seen as allies, and not potential rivals.

The resources of the private sector must be more effectively harnessed, whether through faster progress on privatisation, or enlisting its support on infrastructural projects.

Foreign investors should be encouraged with a common investment strategy that embraces all three countries, while an effective joint tourism approach is long overdue.

And provided the political will is maintained, economic reforms sustained, and past rivalries do not resurface, the presidents' vision of eventual economic integration, reaffirmed on the eve of tomorrow's Financial Times conference on East Africa in London, will have a fair chance of becoming reality.

KENYA POSTS & TELECOMMUNICATIONS

EXCITING FUTURE FULL OF CHALLENGES & OPPORTUNITIES

INTRODUCTION

The Kenya Posts and Telecommunications Corporation (KPTC) is a parastatal organisation wholly owned by the Government of Kenya. It came into being in 1977 after the breakup of the East African Community, the then umbrella body running Posts and Telecommunications Services in East Africa. The Corporation is managed by a Government appointed Managing Director who reports to a Board of Directors which is also appointed by the Government under the State Parastatal Act. The Board is headed by a Chairman. At the Board level, the interests of the Government are taken care of by the two representatives of the Ministries of Finance and Transport and Communications.

OVERVIEW

The telecommunications network in Kenya has grown rapidly both in size and quality since 1977. The exchange capacity has grown from about 88,000 lines in 1977 to nearly 380,000 lines today, while usage has grown from about 63,000 connections to nearly 250,000.

The network is 95% automatic. The digitalisation process has achieved about 54% of the exchanges. Transmission links are undergoing the same process. This includes the major digital link (Nairobi-Mombasa) which is now in operation while the Western link is in progress. The Eastern link is in progress.

On the international services, the modernisation Programme is on course. This includes the completion of the second International gateway Project - Kericho Earth Station - in 1995. Also underway is the expansion of the international exchange and Longonot Earth Station.

The Corporation recently launched a high speed digital leased data circuit service popularly known locally as KENSTREAM. This was received well in the local manufacturing, banking, travel and communications industries, and institutions of higher learning.

Modernisation efforts have been extended to telephone operator services where computerisation has become part of the national digital exchange network. Plans are underway to provide the Global System for Mobile Communications (GSM), a digital system for mobile communications which will be launched under the name "Safaricom-Digital". It will operate side by side with Safaricom-Analogue, the existing ETACs (Enhanced Total Access Communications) which has a capacity of just over 2,000 lines. The World Bank recently pledged financial support for the GSM of up to 10,000 lines.

Also underway is the introduction of the wireless local loop to be known by the name INSTACOM to further enhance telephone penetration in both rural and urban areas. This project too will benefit from World Bank funding.

The following is the status of Kenya's telecommunications network at a glance:

Type of Exchange	Number	Total Capacity
Analogue	57	157,300 lines
Digital	132	177,244 lines
Line Concentrators	80	14,400 lines
Mobile	1	2,000 lines
Manual	260	20,000 lines
TOTAL	530	370,944 lines

PENETRATION LEVELS (Main telephone lines per 100 inhabitants)

Kenya	0.9
Uganda	0.2
Tanzania	0.3
Malawi	0.4
Ghana	0.3
Ethiopia	0.26

Source: ITU

On Postal Services, Kenya currently has about 1,120 Post Offices.

The expansion of the Postal network has led to substantial improvement in penetration levels.

Virtually all parts of the country are within easy reach of a Post Office. Currently, KPTC is exploring the possibility of introducing economic size and cost effective service outlets in order to enhance further the penetration.

Considerable efforts have also been exerted towards providing private letter boxes to facilitate delivery of correspondence. There are nearly 270,000 private letter boxes in the country which are planned to increase to about 340,000 by the end of this year.

Established international lines exist for the normal postal services by land, sea and air. The establishment of direct lines depends on the traffic to be generated. At the moment there are a total of 68 Epidited Mail (EMS) international connections.

Continued on page 2...



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2 EAST AFRICAN CO-OPERATION

■ The regional economy: by Tony Hawkins

Integration a winning solution

The three partners have few illusions about the difficulties they face

Regional economic co-operation has a chequered history in sub-Saharan Africa. Grandiose, unrealistic, promises and programmes to establish customs unions, common markets and single monetary areas have come to nothing, leaving institutions created in the colonial days such as the Southern African Customs Union, (South Africa, Botswana, Lesotho, Namibia and Swaziland) and the 14-member CFA Franc Zone as the only successful experiments in regional co-operation.

East Africa promises to be different, if only because, having tried and failed once before, the three partners have few illusions about the difficulties they face.

Furthermore, the cautious approach to the architecture of co-operation - putting monetary union and a common currency on the back burner - suggests that the regional planners have learned from the failures of others, as well as from their own history.

On the face of it the case for economic integration is overwhelming. Bringing together three of the world's

poorest economies with a regional income per head of only \$200 a year and a total population of some 74m makes excellent sense in terms of providing the critical mass necessary to better attract foreign investment in manufacturing, while enabling companies to exploit scale economies. There should be efficiency gains, too, resulting from tariff and tax rationalisation and the sharing of some common services, thereby eliminating duplication.

Unfortunately, as things now stand, the three economies complement each other to a limited extent. On the export side, only Kenya conducts sizeable volumes of trade with its neighbours. Tanzania and Uganda are locked into commodity-dominated south-north trade patterns for their exports, while becoming increasingly reliant on imports from Kenya. The regional industrial base is similarly heavily skewed in Kenya's favour.

The EAC accounts for only 3.5 per cent of sub-Saharan Africa's manufacturing production - about the same as Zimbabwe with its population of 11m people - and almost three-quarters of this is located in Kenya. Tanzania's share of EAC industrial output is 8 per cent. These numbers illustrate the "polarisation" problem - the tendency for the more advanced member of an eco-

Kenya dominates intra-regional trade (1995) (K2000)*

	Uganda	Tanzania
Exports to	767,000	\$31,000
% share of total Kenyan exports	18	13
Imports from	8,000	\$1,000
Surplus	759,000	\$30,000

* The Kenyan pound equals 20 shillings

Source: Republic of Kenya Economic Survey 1996

nomie union to benefit the most from trade and investment, especially in manufacturing.

Complex formulae to redress this situation have little appeal given their track record elsewhere. Some, with interventionist leanings, argue that industrial planners should "allocate" manufacturing projects on the basis of assessed comparative advantage, but this risks reversing the regional-wide trend towards market-driven reforms, while simultaneously frightening off foreign investors who, understandably, dislike having their location decisions made for them by bureaucrats. The most attractive solution - though one that might not commend itself to some Kenyan industrialists - is to ensure that the region has a relatively low (15 per cent to 30 per cent) common external tariff.

Not only would this ensure that new industrial investment would flow into

competitive activities, but it would also avoid a situation whereby Uganda or Tanzania might feel that they are being forced to buy high cost, indifferent quality imports from Kenya rather than from cheaper suppliers in Asia and elsewhere. Clearly, Kenyan industrialists, already losing market share to South African and Asian imports, (and promised assistance by government in the form of anti-dumping legislation), would be reluctant to see any reduction in their tariff protection, but it could well be a price worth paying for eventual duty-free access to the Tanzanian and Ugandan markets.

Nor are unacceptable levels of polarisation inevitable. Indeed, one leading multinational notes that it is investing more in Uganda and Tanzania today than in Kenya. Kenya's relative share of the \$4.22m regional market - in GDP terms - has shrunk because Uganda's economy has been growing far more rapidly. As a result, Kenya's GDP now accounts for 46 per cent of the total, down from 53 per cent in 1991 while Tanzania's has fallen to 24 per cent from 28 per cent. Uganda's has jumped from less than a fifth to 28 per cent.

The free movement of labour - which will be difficult to achieve given high unemployment and social distress across the region - might be a partial counter to polarisation to the extent that Ugandan and Tanzanian nationals are able to compete for jobs in Kenya. More feasible in the medium term is the free movement of capital within the region. In embryonic capital markets, a single regional stock exchange, with floors in all

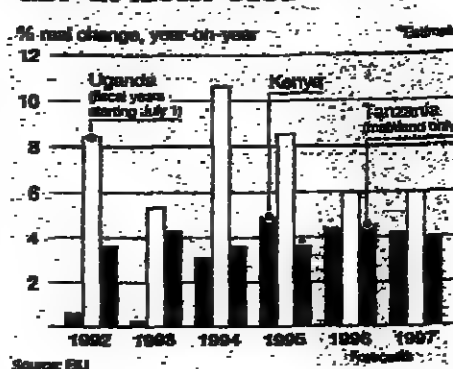
three countries would make more sense than existing plans for three independent institutions.

Given the scarcity of savings throughout the region, investment efficiency will be enhanced by greater capital mobility, through the banks and the capital markets, enabling Ugandan and Tanzanian companies to tap into the Kenyan stock market. The harmonisation of tax rates - that are broadly similar already - and of investment regimes including export processing zone arrangements would put an end to the zero-sum game competition between the region's investment centres, often fighting among themselves for the same projects.

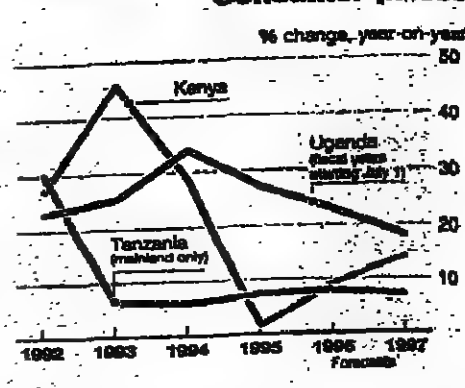
There would be cost and scale advantages from marketing East Africa as a regional tourist destination, rather than the three countries competing fiercely for the tourist dollar. As a single market, the EAC has a diversity of tourist attractions not found in any one of its parts.

The rundown infrastructure in all three countries provides a once-in-a-lifetime opportunity for a cohesive regional solution, that would attract greater donor and private sector support than existing piecemeal approaches. Uganda and Tanzania's disadvantages on the trade front, could be offset by enhanced co-operation

GDP at factor cost



Consumer prices



in services.

Uganda could supply hydropower to energy-strapped Kenya, while Tanzania's Songo Songo gas project could also be developed as a regional resource selling power to the Kenyans. Although industrialists believe that Uganda would find it enormously difficult to compete with manufactured imports from Kenya, there is scope for Uganda to develop exports of food and agricultural materials (maize, sugar, cotton) along with processed agro-products. Serious institutional problems will have to be tackled.

While all three countries are members of the Common Market for East and Southern Africa (Comesa), application of Comesa tariff cuts has been uneven, especially in Tanzania. Kenyan industrialists complain that because tariffs on some imports into Tanzania are so high, cross-border trade is largely restricted to smuggled goods. This suggests

that the official trade figures understate the one-sided nature of trade links.

The eventual elimination of internal tariffs will be complicated by the requirement that - as members of Comesa - Kenya, Tanzania and Uganda must offer the same trade preferences to all other Comesa countries as well as to their EAC partners.

Tanzania's position is even more complicated. It is also a member of the 12-nation Southern African Development Community, whose members signed a regional trade protocol in August. Sooner or later, it will have to choose between SADC and the EAC.

Given the limited nature of its ties with the south - other than rapidly-growing imports from South Africa and some South African investment - it is likely to focus more on the EAC, especially in the light of President Mkapa's enthusiasm for the project. No regional arrangement can be

wholly equitable. There will always be one or more members that benefit more than the others.

Policy-makers need to focus less on how the benefits might be shared and more on boosting economic growth for the region as a whole, primarily by implementing outward-looking trade and investment strategies. Leaders must ask whether any of the three countries would be better off outside the revived EAC than within it. If the policies are wrong - if there is some misguided effort to use the common tariff to create a larger market as a basis for inward-focused industrialisation - then staying outside might be the wise decision.

But if, as seems more likely given the strength of the reform movement in the region, co-operation becomes a vehicle for opening up and globalising the three economies, then regional integration could become a game in which there are winners all round.

■ Tanzania: by Michela Wrong

Mediation brings rewards

The poorest of the three countries has an average per capita income of just \$120

If East African co-operation reaches fruition, no one will be able to claim more credit than President Benjamin Mkapa of Tanzania.

Since winning last October's elections, Mr Mkapa has set reviving co-operation as one of his main objectives, and the recent rapprochement between the Ugandan and Kenyan presidents, previously barely on speaking terms, is largely thanks to his unrelenting mediation efforts.

Such commitment verges on the chivalrous. For while landlocked Uganda's interest in sweeping away the barriers blocking its access to international trade seems clear, Tanzania's is far less obvious.

The poorest of the three countries, with average per capita income of just \$120, the country's population of 28m - almost the same as Kenya's - offers nothing like the same purchasing power to investors.

Its infrastructure has been set back by the years of former president Julius Nyerere's African socialism. Its lumbering bureaucracy remains a brake on development.

Despite being the slowest of the three nations to lower tariffs in line with Comesa recommendations, the country is running trade deficits with both Kenya and Uganda.

The fear among jittery local businessmen is that an embryonic manufacturing sector, already threatened by goods flooding in from the Middle East, China and South Africa, risks being overwhelmed by regional imports once co-operation becomes reality.

Tanzania is being marginalised. It is becoming a dumping ground for Kenya, which has a stronger manufacturing base and less punitive tariffs on imports, complains a prominent Asian trader. "We must have a level playing field."

Yet Mr Mkapa's behaviour is not so foolhardy as it may seem. While the short term may be risky, long-term benefits could be enormous.

Unlike Kenya, Tanzania boasts huge tracts of unsurveyed, undeveloped land available for the leasing.

The discovery of gold is already attracting many South African, British and Canadian mining firms. And Tanzania is just beginning to recognise its failure to market its extraordinary tourist attractions ranging from the islands of Zanzibar to the unspoiled game parks.

In addition, the development of the Songo Songo natural gas scheme stands to turn the country into an exporter of the power Kenya and Uganda need.

There is certainly no shortage of other projects on offer. Following the successful privatisations of Tan-



Der es Salaam: ships headed for the islands and lower duties

nia Breweries and Tanzania Cigarette, divestiture of the 300 parastatals continues. A conference organised in Dar es Salaam by the UN Development Programme is currently courting foreign interest in investments worth \$600m.

But while no one can refute Tanzania's potential, much remains to be done before it can be tapped. Juma Mwapachu, chairman of the Confederation of Tanzania Industries, talks wryly of the "disabling policies" that have crippled business over the years.

Under Mr Nyerere, whose regime was marked by de-industrialisation and plummeting living standards, it became impossible to thrive legitimately and the seeds of corruption were sown. Liberalisation under President Ali Hassan Mwinyi simply opened up new avenues for shady personal enrichment.

By 1994, the official practice of granting arbitrary tax exemptions to a few well-connected businessmen had reached outrageous proportions, prompting the International Monetary Fund and donors, who provide a yearly \$1bn in aid, to freeze assistance.

Electing as the ruling Chama Cha Mapinduzi party's "Mr Clean", Mr Mkapa has attempted to institute the transparency needed for conventional investment.

He set up an anti-corruption commission, established an Independent Tanzania Revenue Authority and set about closing the "Zanzibar loophole", whereby lower duties on the islands lured container ships away from Dar es Salaam and encouraged vigorous smuggling to the mainland.

The heads of graft-ridden parastatals were sacked, and a tight rein kept on expenditure. Inflation, which peaked at 42 per cent in early 1995, fell to 18 per cent in August and gross domestic product is expected to touch 5 per cent this year.

If all goes well, the IMF will resume funding this month, with a desperately-needed \$234m structural adjustment facility almost certain to be approved. The World Bank would then advance loans of \$100m and the Paris Club of western donors is expected to approve \$200m in debt relief,

rampant, the crackdown has increased the burden on a narrow base. "Established companies, particularly highly visible expatriate companies, are being targeted for hundreds of taxes," says Richard Carter of the Commonwealth Development Corporation.

Just getting to the stage of paying taxes is no easy matter. Companies bringing in foreign staff can wait months for work permits. One multinational, in partnership with the government on a key infrastructure project, had two employees briefly jailed for starting work before permits were issued.

Above all the stubborn, if clandestine persistence outside the presidency of a certain mindset - nostalgia for state planning, contempt for profit-making, hesitation to take the initiative - holds Tanzania back.

"There's a civil service, a political leadership that doesn't know how to live with the private sector," says Mr Iddi Simba, a CCM parliamentarian who runs a financial consultancy. "A change in mentalities is called for."

In the days of the East African Community, Tanzania fought hard to be compensated for its disadvantages, pushing for taxes on Kenyan imports and the relocation of Nairobi-based institutions.

The temptation for Tanzania will be to push for such "remedial measures" again, a stance at odds with the vision of East African co-operation.

(... Cont. from Page One)

KENYA POSTS & TELECOMMUNICATIONS

EXCITING FUTURE FULL OF CHALLENGES & OPPORTUNITIES

Kenya is recognised as an important mail transit centre between Africa and countries in Europe, Asia, Australia, the Middle East and the Americas.

Accordingly, expansion and modernisation of the Nairobi and Mombasa International transit centres for air and surface mail respectively are priority projects at the moment.

The main services currently offered are: correspondence (ordinary, registered and insured, on transit) - both domestic and international; parcels (domestic and international, financial services (money orders and postal orders) EMS and Philatelic Services.

Plans are underway to introduce new services including fax bureau, Electronic Mail and Giro Bank.

RESTRUCTURING

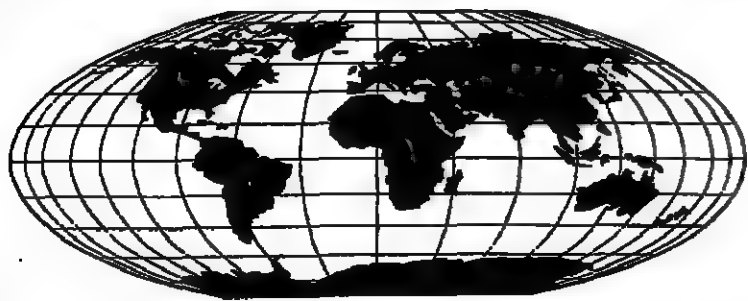
Telecommunication and Postal business are to be split and the resulting organisations are to be commercially managed. A third organisation, the regulator, will assume regulatory functions for the sector currently being discharged by KPTC. This will involve providing for the rights and obligations of operators, licensing, interconnection, public service obligations and fair competition which will ensure the protection of customers and investors interests.

Telkom Kenya Limited will initially be wholly owned by the Government. However, after carrying out the requisite financial restructuring, it is intended to mobilise capital from the Private sector. In the short run this will be achieved through joint ventures and revenue sharing arrangements. In the medium term, there are plans to offer for sale up to 30 per cent of Government shares to the Private Sector. This stake will be offered on the Nairobi Stock Exchange to local and international investors. It is proposed to appoint an investment banker to advise on the distribution of shares and strategies for the initial public offering.

The Postal Services market has experienced competition in spite of KPTC's legal monopoly. The new legislation allowing the split of KPTC into three entities, will provide for competition in the sub-sector but all players will have to be licensed by the regulatory authority.

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Kenya by Tony Hawkins

Fundamentals looking good

Transforming potential into performance is going to be difficult

With Kenya's elections due in 1997, business people and donors are understandably wary of a re-run of 1992 when fiscal policy lurched off-track with disastrous repercussions.

Although there has been a delay in finalising the IMF's mid-term review of Kenya's three-year Enhanced Structural Adjustment Facility (ESAF) loan, the reform programme is broadly on track with the most important single indicator - the budget deficit - well under control.

Current estimates point to a deficit (excluding grants) of 1.3 per cent of GDP compared with a budget target of 1.7 per cent, while growth is forecast at 4.5 per cent this year, a slackening in momentum largely reflecting the relatively poor rains, continued high real interest rates and an increasingly uncompetitive exchange rate.

After last year's dramatic success in bringing the average annual rate down from over 24 per cent in January

to 1.6 per cent in December, inflation is on the way up again reaching 7.8 per cent for the year to September and 10.4 per cent year-on-year.

With Treasury Bills yielding 24 per cent for 91-day money and bank lending rates ranging from 22 per cent to 28 per cent, real interest rates are punishingly high. This is discouraging investment and attracting short-term, hot-money inflows, that are complicating the central bank's efforts to curb money supply growth while maintaining a competitive exchange rate.

The balance of payments on current account is looking very healthy, with the 12-month deficit falling steeply to only \$96m in August from \$631m a year earlier. The main reason for this is the much-reduced trade deficit, down by a third to \$792m.

This is not all good news, because while exports were up some 5.5 per cent at almost \$1.9bn in the year to August, tourist earnings have fallen 11 per cent to \$438m, while imports are down 9 per cent.

Meanwhile liberalisation is paying off in attracting substantially higher short-term capital inflows, up 12.5 per

cent at \$524m in the last year. It is clear that confidence in the Kenyan shilling - on the part of both Kenyan nationals and foreigners - has grown markedly over the past 18 months. So much so that the currency now looks to be somewhat overvalued.

But with the overall balance of payments in healthy surplus (\$350m over the last year) and gross reserves up nearly 30 per cent to \$1.2bn or more than five months' import cover, the fundamentals are looking good.

Kenya's hard-won return to macroeconomic stability is no more than the bare minimum necessary to launch the country on to the sharply higher growth path needed to combat poverty and ensure stability.

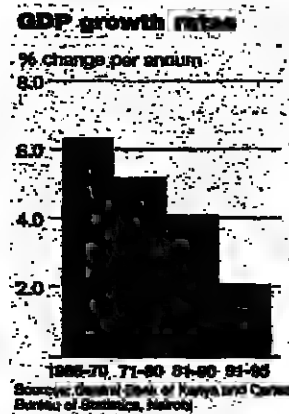
Real per capita incomes have stagnated since the mid-1980s and with a per capita income of \$280 in 1994, Kenya is the world's 17th poorest economy. While agriculture, accounting for almost a quarter of GDP and more than 70 per cent of direct and indirect employment is the backbone of the economy, its growth potential is limited by its erratic climate, and by the fact that two thirds of the land is semi-arid or arid.

Manufacturing, especially agro-processing, and services will have to be the engines of growth in the next decade. But the new world order of globalised manufacturing with its emphasis on technology and skills rather than low-wage labour - Kenya's chief source of competitive advantage - offers scant encouragement for those who see the country joining the ranks of the Asian tigers.

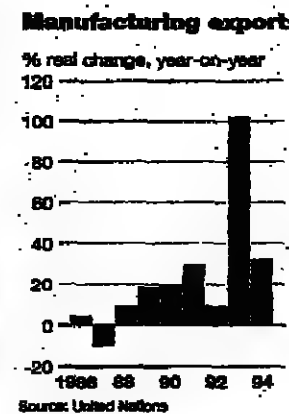
Indeed, the steep increase in South African imports - Pretoria has come from nowhere to become the country's third largest supplier after the UK and Japan - and demands by industrialists for anti-dumping measures, suggest that Kenyan industry has some way to travel before it becomes globally competitive.

This is all the more obvious given the constraints on economic growth - the two main ones being infrastructure, especially power, which is being rationed, thereby disrupting industrial production and tourism, but also transport, telecommunications, water, and corruption.

At macro level, the combination of liberalisation and deregulation, donor and media vigilance, and the reforming zeal of Finance Minister Musalia Mudavadi



Source: Central Bank of Kenya and Central Bank of Statistics, Nairobi



Source: United Nations

and Central Bank Governor Mwach Cheserem - the two musketeers of reform - have done much to limit the scale of corruption, but at other levels, such as the tender process, corruption poses a very serious threat to the economy.

The privatisation programme continues to be a bone of contention among donors who want both speedier progress and greater transparency. In the last three years Kenya has made enormous progress along the reform trail. It is doing better than many outsiders feared while still failing to meet the targets that its friends and well-wishers believe it capable of reaching.

Since 1991, real GDP had grown a mere 2 per cent annually and per capita incomes have fallen 3 per cent.

No country whose population is increasing at the rate of 2.9 per cent a year and whose living standards have stagnated for a decade can hope to maintain political stability on the basis of such a track record.

Given its limited natural resource base - agriculture and tourism - Kenya has become heavily dependent on its geographical position and existing industrial base, which make it the logical growth pole for East Africa, and its huge potential in the form of its relatively well-educated, easy-going workforce.

While the launch pad of macroeconomic stability may be in place, the other ingredients necessary for sustained growth of 8 per cent to 7 per cent annually are not. Tiger status may yet come, but not in the next five years.

Uganda by Michael Holman

Recovery is continuing apace

After its remarkable revival, Uganda needs to expand its export base

When President Yoweri Museveni visited Tanzania and Kenya recently, two stops were high on his agenda - the ports of Mombasa and Dar es Salaam, both undergoing rehabilitation under new management.

For landlocked Uganda, regional co-operation is about anything. It is about securing efficient outlets to the sea and eliminating the inefficiency and corruption that adds to freight charges and import bills.

The fact that progress is being made is good news for Uganda's business community, playing their part in what has become one of Africa's most remarkable recoveries.

The country once synonymous with disaster now boasts the highest economic growth rate in sub-Saharan Africa. Ten years after President Museveni and his

National Resistance Movement took office, the revival of a nation devastated by the despotic regime of Idi Amin and the war to overthrow him, has continued apace.

Uganda's GDP growth has averaged 6 per cent annually since 1987, topped 8 per cent during the year ending June 1996, and is set to perform well again this year.

Inflation, in single figures, the currency is freely convertible, and foreign exchange reserves equal four months' import cover.

Meanwhile, the return of Ugandan Asians expelled by the Idi Amin regime in 1972, coupled with greater general confidence in the economy, has led to the repatriation of flight capital at a rate of almost US\$300m a year over the past three years, according to IMF estimates.

No wonder, then, that the resident International Monetary Fund (IMF) representative in Kampala recently called the record "outstanding". She might have added, however: "But now comes the hard part."

If Uganda is to sustain high growth and replace aid by foreign investment, it



The tea estates have the potential for boosting growth

must start expanding an export base reliant on a handful of cash crops, improve an infrastructure in which inadequate power supplies are a big constraint, and make an import-substitution manufacturing sector competitive in the region and beyond.

Further progress with the difficult task of trade liberalisation is part of the price of continuing approval from the Fund and the backing of the World Bank and other donors worth US\$500m a year. Tariff reform is also at the heart of East African Co-operation, but most Ugandan business people display little enthusiasm.

Uganda's manufacturers, only now reaching the pro-

duction levels they enjoyed before the years of anarchy and civil war, feel they need more time to prepare for the competition from Kenya in particular, as well as from trading partners further afield, that reduced trade barriers will bring.

Private investment over the past few years has concentrated on reviving a manufacturing sector dominated by import substitution, and local manufacturers say they need time to consolidate.

"We need two or three more years of protection before we are ready to deal with the challenge of Kenyan imports," says Roni Madhavan, head of Nile Breweries. His views are echoed by

the Uganda Manufacturers' Association, whose officials point to the already massive trade deficit with Uganda's neighbour.

In 1994, Uganda imported goods worth about \$172m from Kenya, but Kenyan imports from Uganda totalled only \$3.2m. The government itself has concerns about the impact of trade liberalisation, namely the impact on state revenue. About half of the Ugandan government revenue comes from various duties and taxes on imports.

Lower tariff barriers mean less revenue, hence the efforts to expand the country's tax base by introducing value added tax - a move that led to a strike by traders and shop-owners in Kampala, forcing the government to withdraw the tax.

Uganda's medium to long-term potential lies not in its modest manufacturing sector, argues supporters of East African co-operation, but in food production, agro-processing, tourism and power supplies.

Given its fertile land it could become an important basic food supplier to neighbouring Kenya, where two thirds of the land is arid or semi-arid.

The second area is power, where plans to expand the country's capacity could provide a surplus for sale to Kenya.

Uganda's tourist potential, as yet barely tapped, could also be more readily realised

if plans for joint marketing of the East Africa region and easier movement of tourists between the three countries are fulfilled.

And although Uganda has a fledgling stock exchange, local companies could raise capital on the Nairobi market if existing barriers are lifted as economic co-operation takes hold.

Further growth can come from the revival of the country's high quality cotton crop, rehabilitation of the tea estates, and development of non traditional agricultural exports.

But there is a cloud on the horizon. Although Mr Museveni gained an overwhelming victory in the presidential poll last May, when he won 75 per cent of the votes, and his party NRM was successful in the parliamentary elections in June, he faces a growing security problem in northern Uganda.

The rebels, a bizarre religious sect known as the Lord's Resistance Army, and supported by neighbouring Sudan, have been able to exploit ethnic rivalries, historical grievances, and a sense of neglect highlighted by the contrast with the buoyant south.

No and is in sight, and the danger is that Mr Museveni will be distracted from his commitment to implement the principles of East African Co-operation as he grapples with security problems in the north.

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4 EAST AFRICAN CO-OPERATION

■ History of co-operation: by John Githongo

Century of borderline deliberations

The process of integration has been continuing for more than a century

By the time of independence in the early 1960s, economic integration in East Africa was the most sophisticated on the African continent. Indeed, it was well ahead of efforts to create what is the European Union today.

External trade, fiscal and monetary policy, the transport and communications infrastructure, and university education all operated within the framework of a single organisation.

In a sense this process of integration had started in the late 19th century, when the British decided to build a railway linking the coastal city of Mombasa in Kenya to Uganda's capital Kampala.

In the early days, the focus of integration was common services between British territories.

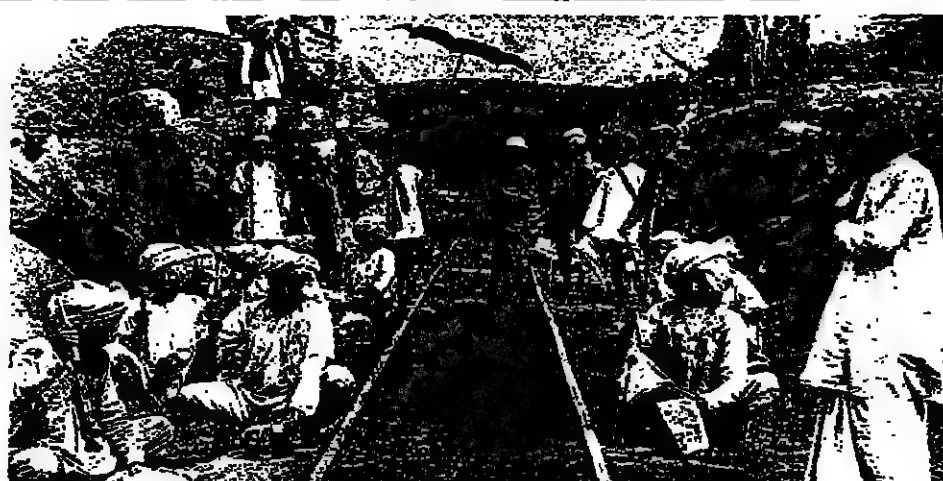
In 1905, the colonial authorities established the East African Currency Board and this was followed by a Postal Union in 1911. An

East African Federation with Nairobi as its capital was already popular among British settlers in Kenya by 1928 when the Hilton-Young Commission advised against it and made recommendations that led to the institutionalisation of common services instead.

In 1940, the Joint East African Board was formed to handle tax collection and the cause of integration was given a significant boost in 1948 when the East African High Commission (EAHC) was established to manage the common services.

Institutions that were to become part and parcel of the way all East Africans understood the concept of an integrated region in the post-independence era came into being at this time - the East African Railways and Harbours, East African Post and Telegraph, Makerere College, and others.

With Tanzanian independence in 1960, the EAHC was disbanded and replaced by the East African Common Services Organisation (EASCO). As a result of the euphoria that accompanied the movement towards independence across Africa, the



Work on the railway linking Mombasa to Kampala started in the late 19th century

idea of East African integration acquired a political character.

On June 5, 1961, Julius Nyerere, the president of Tanganyika (Tanzania), and the prime ministers of Kenya and Uganda, Jomo Kenyatta and Milton Obote, signed a declaration pledging themselves to political federation.

Opposition within Uganda, together with ideological differences that were only starting to emerge, killed the idea of federation. But with the signing of the Treaty for East African Co-operation in 1967 the East African Community (EAC) was created to "strengthen and regulate commercial and other relations of the partner states".

Ugandan and Tanzanian fears that they would be dominated by Kenya's more developed economy was

reflected in the tone of the treaty and it affected the way the EAC's institutions were put together.

A tax transfer system to protect Tanzanian and Ugandan industry from Kenyan competition was established, among other measures, though Kenya continued to dominate economic activities relating to the common services.

President Nyerere's Arusha declaration of 1967 set Tanzania firmly on the socialist path towards development. This created an ideological rift with "capitalist" Kenya and was one of the reasons the Community failed.

A particular sticking point was the fact that foreign investment was an integral part of Kenya's development process. The Tanzanians saw intra-EAC trade as benefiting Kenya-based foreign

companies. Another problem was the fact that the treaty centralised control of the EAC in an authority made up of the three heads of state.

Progress was tightly linked to personal relationships between the three presidents. In many ways, the overthrow of Obote's government by Idi Amin in January 1971 sounded the death knell for the Community.

Obote fled to Tanzania and an outraged President Nyerere refused to recognise the new regime in Uganda. The authority never met again and the Community finally collapsed in 1977.

It can be argued that the EAC was a colonial creation that post-independence leaders lacked the will and capacity to sustain. From this perspective, its gradual disintegration started at

independence. The fact that the 1967 treaty did not include any conflict resolution modalities was also a fatal flaw. The fundamental ideological differences, especially with regard to foreign investment, only compounded destructive resentment caused by the feeling that the EAC was unable equitably to distribute its benefits between the three member states.

Perhaps the greatest lesson learned from the EAC experience is about East Africa's *wananchi* (ordinary people).

One of the starkest contradictions of the community was that even when the rhetoric of integration was at its highest pitch, governments were busy placing stumbling blocks in the path of East Africans trying to "co-operate".

After independence, for example, it became easier for East Africans to enter many European countries than it was to cross their East African borders to do business.

Unfortunately, archaic laws still brand many of the most dynamic of these individuals as smugglers and illegal aliens to be harassed by authorities.

The current integration initiative in East Africa can be viewed as the region's leaders and civil servants desperately trying to catch up with their own hardy people who have always treated borders with the contempt they deserve.

John Githongo is a columnist with The East African newspaper, based in Nairobi.

■ Transport

Rough ride for travellers

The rail network has been neglected and the road system poorly maintained

If East Africa were a body, its arteries would be so clogged that any doctor would have cause for concern. The slow pace and high cost of transport are among the most frequent complaints made by industry across the region.

"It takes as long to move a container a few hundred kilometres by road from the port in Dar es Salaam to our factory in Arusha as it did to get it all the way to Tanzania from Europe," complains Christian Engsted, the East Africa president of the Swedish-Swiss conglomerate ABB. "This pushes up costs and makes it very difficult for us to remain a public service."

Kenya and Uganda present similar difficulties. Travellers and business face an unenviable choice between a rail network neglected for generations and a road system in which main trunk routes are poorly maintained, sometimes unsafe and often choked with traffic. Regional links are further impeded by lengthy bureaucratic formalities at border controls.

Tackling the transport problem is one of the main priorities established by the new East Africa Co-operation. Some successes have already been achieved. In May, the region's three main rail authorities agreed to set up a joint secretariat to advise on technical issues. There are plans for a single maintenance facility for the region, based in Uganda, to be operating by 1998.

Cross-border rail and ferry passenger services between Kenya and Tanzania have resumed after an 18-year break. East African nationals enjoy their own immigration queue at borders, with proposals for a common travel document under discussion.

Much, however, remains to be done. It is nearly 100 years since the railway first opened East Africa to international trade. The network formed the foundation for the region's economy, not only making Uganda accessible but also uncovering the agricultural potential of the Kenyan highlands. Furthermore, Nairobi, the commercial centre of East Africa, first became a trading centre because of its strategic location on the line from Mombasa to Lake Victoria.

These days, it can take up

to six weeks to bring imports from the coast to Kampala by train; rail handles barely a third of freight traffic along the route. "The demand is there," according to the corporate planning manager for Kenya Railways, Zacharia Muriage, "but our capacity is completely exhausted." Mr Muriage estimates it will cost some KShn (\$100 million) to turn the organisation into a modern, efficient business. "There is no sign," he says, "of where that kind of money will come from."

Government strategy across the region is to restructure rail corporations along commercial lines, farming out non-core services such as locomotive maintenance, catering and cleaning. Kenya's transport and communications minister, Wilson Ndolo Ayah, insists, however, that rail must remain a public service, promising subsidies to keep passenger fares down.

The poor health of the region's state-controlled railways has pushed business on to the roads and into the hands of private haulage companies. Journey times, although far shorter, are nevertheless neither swift nor reliable. Heavy use and an absence of maintenance have left vital trunk routes littered with crater-like potholes. This has encouraged reckless driving techniques resulting in one of the highest accident rates in the world.

However, there is some progress in Tanzania, which has the poorest network of tarred roads and an unhappy record on previous rehabilitation projects, is hoping to involve the private sector in a new policy initiative expected by mid-1997, according to transport and communications minister William Kusila.

After months of wrangling over the Kenyan government's transport agenda, the World Bank has now agreed to release \$50m for a road strengthening, widening and maintenance scheme for the Mombasa-Nairobi highway. However, work will not begin for several months, and there are no plans to extend the project east to Malaba on the Uganda border, or on to Kampala.

Thus, while in particular sectors efforts to arrest the decline in the transportation infrastructure are taking place, the environment looks for some considerable time certain to test the patience of traders and travellers alike.

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■ Telecommunications: by Michela Wrong and Antony Goldman

Better connections

Bad management and low investment ratios are reasons for the poor service

About the most awkward place to telephone in Tanzania is the northern town of Arusha, also the headquarters of the East Africa Co-operation secretariat. "It's a nightmare," a government official in Kenya confided. "We obviously can't arrange our meetings by mail, but often it's just impossible to get through." The problem is by no means untypical.

From Nairobi, Dar es Salaam and Kampala, it is always easier to call abroad than to ring the interior. It is quicker to drive the 45 minutes from Uganda's international airport at Entebbe to the capital than to wait for a line.

Even international calls from luxury hotels can be problematic. At peak times it may sometimes take 15 minutes of repeated dialling to

reach London from Nairobi. Furthermore, the costs are staggering. Charges for a three-minute long-distance call from Tanzania are around \$20.

It was not always so. Twenty years ago, a single, efficient basic cable network covered Kenya, Tanzania and Uganda.

Poor management, political interference and low investment ratios are some of the factors behind the precipitous decline of telecommunications infrastructure and services across East Africa in recent years.

An industry analyst describes the state-owned Kenya Posts and Telecommunications Corporation (KPTC) "as an opaque bureaucracy vulnerable to spectacular corruption", while Tanzania's recently restructured telecommunications company "still suffers from its past, when new standards for sloth and incompetence were set".

Governments are beginning to acknowledge the scale of the problem. Kenya's communications minis-

ter, Wilson Ndolo Ayah, promotes corporate restructuring, joint venture projects and high speed data links. The formerly socialist ruling party in Tanzania began a process of privatisation in 1994 which could soon leave private enterprise with a controlling interest in telecommunications.

Uganda has gone even further. Two private companies already compete in offering internet services. The authorities are preparing to offer a second national network operating licence to rival the old, parastatal monopoly. Bids of around \$80m are expected from consortia thought to include leading international companies such as Southwestern Bell and Deutsche Telekom.

While the regional market is tiny - penetration in Kenya of barely 1 per cent is several times higher than its neighbours - new technology is providing opportunities for the private sector to

enter. With a satellite dish and wireless switching, one independent operator can expect to

recover costs within 18 months from a green field site with a potential subscriber base of just a few hundred.

Officials are also again considering the merits of closer co-operation. "We have to find better ways of working together," says John Mutai, managing director of KPLC. "If we in the region can talk to each other more easily, we can trade better, and that will help promote growth and development."

There are other benefits. Both the investor community and donors have expressed interest in supporting a proposed, \$100m digital link between Kampala, Nairobi and Dar es Salaam.

Obstacles to growth, however, remain. Tanzania's \$500m, five-year Telecommunications Restructuring Programme - due for completion in 1998 - has included the installation of many new lines. But while the new numbers allotted are published in newspapers, a comprehensive new directory



The new system may work but there is no telephone directory

will not be published until next year. "The advantage of the new system is that it works, the problem is you have no one to call," quips one local diplomat.

And while erratic services have generated an enormous demand for mobile telephones in the region's three capitals, much of it remains unfulfilled. Hopeful operators say they remain thwarted by old-fashioned political sensitivities and incompetence.

In Kenya, for example, where the pace of commercial restructuring has been

most conservative, the authorities plan to sell only a third of KPTC shares, and even then, not before 1998. "This is a strategic resource," says Mr Mutai. "We will not allow it to slip into the hands of foreigners."

Governments, however, are undaunted. Even in Nairobi, Mr Ndolo Ayah promises a new, integrated regional telecommunications market free from state control. "In five years," he predicts, "we shall be no more than regulators preparing the playing field for a thriving commercial industry."

■ Stock markets: by Joel Kibazo

A step back to yesterday

Progress has been hampered by outdated regulations and false starts

Overseas investors wishing to invest in the three countries of the East African Co-operation could be excused if, after examining conditions there, they gain the impression that they have stepped back in time.

Kenya, Uganda and Tanzania may have undertaken economic restructuring over the past decade, but progress in developing their financial markets has been hampered by outdated regulations, false starts and continued hostility towards foreign investors.

Kenya, the region's biggest economy, is the only country with a fully-fledged stock market. The Nairobi stock exchange was founded in 1954, and is now Africa's fourth largest with a market capitalisation of around \$1.5bn. The market registered the biggest gains in the emerging markets sector in 1994 as local investors bought stock ahead of the relaxation of rules for foreign investors.

However, that advance also proved to be its undoing. Foreign investors shied away in 1995 unwilling to pay for what they considered to be overpriced stocks.

This year was expected to be different. The sale of 48 per cent of newly-privatised Kenya Airways in June was forecast to revive the fortunes of a market that had spent the previous 18 months in decline. The offer not only marked the biggest flotation on the bourse but

also raised the market's capitalisation by 8 per cent. But that was by no means the only issue and the Kenya Airways sale was quickly followed by the government sale of part of its holdings in Kenya Commercial Bank (KCB) and National Bank of Kenya (NBK).

After an initial advance following the Kenya Airways sale, the market returned to its downward trend and figures from the exchanges itself show it has declined by 12 per cent since the beginning of this year.

Analysts cite stock indigestion as one of the reasons for the decline. "This is a market that cannot cope with the sale of so many big issues in such a small space of time," said Christopher Harland Peel, Africa equity analyst with Standard Bank.

But others point to high interest rates as a factor in the market's decline. They say prevailing rates mean investors would rather put their money in treasury bills, which are yielding about 24 per cent, than in shares.

For foreign investors, the market's regulations have also acted as a barrier to entry causing a further decline in the index. Overseas investors can only buy up to 40 per cent of a locally-owned company, while regulations prevent international portfolio investors from buying stock in foreign-controlled companies listed on the exchange.

John Legat, of LGT Asset Management, said: "The Nairobi market is cheap, the economy is doing well and earnings are OK. It represents a reasonable investment opportunity but the

regulations are not making it easy for investors like me who want to put money in that market."

Jimnah Mbari, chairman of the Nairobi Stock Exchange, sounds equally frustrated when asked about the issue. "We have been trying to get the rules changed and have tried informal as well as formal approaches to the authorities here, but all I can say is we are still waiting."

Few such problems have dogged the private sector and last month saw the launch of the Acacia Fund, a private equity fund to invest in private sector Kenyan companies. CDC, the UK's development finance institution, is the main sponsor of the Kisumu fund. Michael Turner, of CDC, said: "I believe we are going to have a wide range of good proposals from companies in which we can invest in the private sector."

But if would-be investors in the Kenya market are frustrated by outdated regulations and problems of settlement, no such market even exists in Uganda. Having announced last year that the stock exchange will be opened in February this year, all that has happened are postponements to May, June, August, December, although even that date is unlikely to be met.

But delaying the introduction of a market is not necessarily seen as a negative. Mike Marland, of Blakeney Management, which specialises in developing stock markets, says: "It is much better to delay the opening of a market than to go ahead before everyone concerned is ready as was the case in

Zambia. There was little domestic demand in that market and what is more, the little stock that existed was overpriced."

Simon Rutega, co-ordinator of the stock exchange project at the Bank of Uganda, said: "We have had a lot of delays but we want to get the framework correct." He added: "We want to make our market as attractive as possible to foreign investors so we are going to make this an open market without any restrictions."

But Uganda's plans for an open and free stock market are not shared by capital market authorities in neighbouring Tanzania. Having announced that the long-delayed stock exchange is to open in December, the Capital Markets and Securities Authority also dropped a bombshell when it said foreign investors are to be barred for the time being.

Fratern Mboya, chief executive of Tanzania's Capital Markets and Securities Authority, said: "We need to gauge the local market. So we shall not allow foreign investors in the first companies to be listed. We also need to work on the laws that would affect their involvement."

Mr Legat who is normally enthusiastic about the region, said simply, "I will have to go somewhere else." In spite of what appear to be contrasting philosophies, the heads of the three exchanges have already started discussions on closer co-operation. Issues under discussion include the possibility of cross-listing, harmonisation of listing procedure, and a common training programme for brokers.

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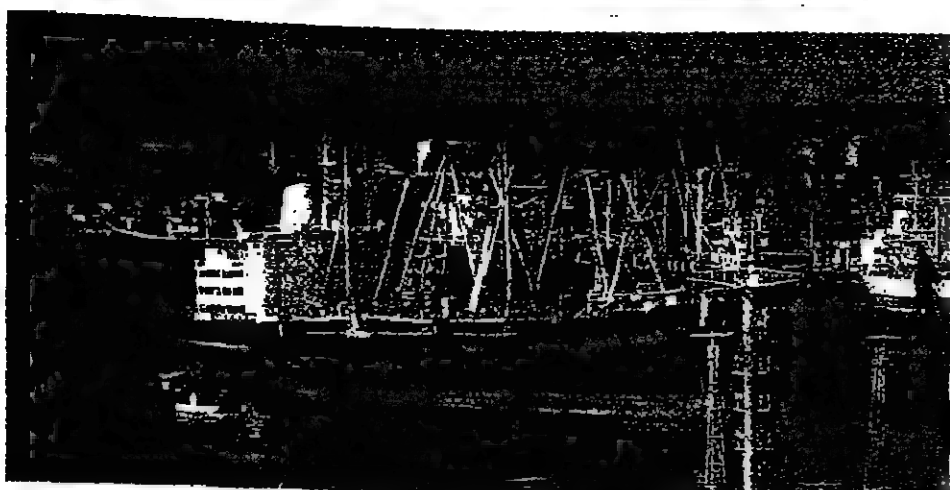
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PROMOTING INVESTMENT IN KENYA



The Tanzania Harbours Authority appears to be making headway by setting itself higher standards

■ Ports: by Michela Wrong and Antony Goldman

Flow eases at the two gateways

An upheaval is under way to improve service at Mombasa and Dar es Salaam

The Swahili phrase *toa kizu kidogo* ("tick" for short) is all too familiar to importers bringing goods into East Africa.

It means "give a little something" and until recently, it was necessary to do just that to get containers through the "toll stations" - the police and customs checks at the ports of Mombasa and Dar es Salaam.

Theoretically gateways to the region, the two ports had become barriers to trade, rife with theft, mired in administrative incompetence and official corruption.

A thorn in the side of landlocked Uganda, which is dependent on them for supplies, they were a constant focus of complaints from businesses and a serious concern for the International Monetary Fund, which is determined the Tanzanian and Kenyan governments should improve revenue collection.

An upheaval is now under way. Mombasa is under new management, following a January purge that led to the sacking of a score of top officials at the transport ministry, customs and Kenya Ports Authority, which lost its managing director. The management of the container terminal has been handed to a UK team from Felixstowe which will run it for the next two years.

In Dar es Salaam, no top-level sackings have occurred. But having signed a performance contract with the government, the Tanzania Harbours Authority appears to be making headway simply by setting itself higher standards.

"We're seeing a consistent improvement in just about everything," says Mr Paul Thomson, whose company, East African Conference Lines, represents 10 shipping lines. "Hopefully, most of our problems will soon be behind us."

Mombasa and Dar es Salaam also fell victim to the region's economic upturn. Liberalisation in Uganda and Tanzania brought a flood of imports into the ports, whose ageing facilities were unable to cope.

Productivity fell to its lowest level in 1994, with Mombasa logging 79 container moves per 24 hours, compared to the 600-700 seen in European ports. By mid-1995

the container build-up had reached the point where both ports were near gridlock.

Technical problems were only half of the story. Bureaucratic procedures obliging clearing agents to visit innumerable offices - around 25 in Mombasa - amplified opportunities for *toa kizu kidogo* and further delays.

Clearing an unloaded container - a procedure that can take less than 24 hours in Europe - required two to three weeks in Mombasa and four weeks in Dar es Salaam.

Add on rail and road trips and border checks and a Ugandan importer could wait four months for his goods.

National antagonisms did not help. "The old team used to give the impression they were doing Uganda a favour by allowing our goods through port," commented Yoweri Museveni, the Ugandan president, on a recent trip to Mombasa.

Ambitious presidential plans to turn Mombasa into a free port have now been put to one side while Robert Brenneisen, the new chairman of Kenya Ports Authority, sets himself two years to resuscitate the enterprise.

One of his first moves has been to raise charges on importers who were exploiting the port's inefficiencies to use Mombasa as a cheap storage spot. "Importers were acting as speculators, leaving cars here while they found buyers. So we doubled the charges and it had a dramatic effect," he said.

With new equipment installed and old cranes being renovated, the plan is to have productivity, now hovering around 260 moves per 24 hours, up to 350 units in a year. Clearing agents note with approval that cargo now stays as little as five days in port.

Although Mombasa expects to log a profit of \$15m this year, it is still only working at a third of its 20m tonnes a year capacity. Documentation remains a problem. "Together with customs, we are working on integrating our computer systems and that should lead to faster, more efficient handling of documents," says Mr Brenneisen.

His counterpart in Dar es Salaam, Samson Luhigo, has managed to boost performance at his far smaller port from 183 moves at the start of the year to 350 moves thanks to improved planning, security and new

equipment.

The time containers spend in port has been cut to 17 days and the authority, which made a \$300,000 loss in 1995, expects a profit of \$25m this year. "We believe improved standards are the panacea for corruption," says Mr Luhigo. "If we can achieve them there will be no need for anyone to ask for a bribe."

The closing of "the Zanzibar loophole" - lower duties which lured much of the trade to the spice islands and encouraged smuggling - is expected to bring more traffic to the mainland. Dredging the entrance channel to ensure 40,000-tonne ships can enter, whatever the tide, will eliminate a basic structural shortcoming.

For both authorities, improving performance and cutting down on paperwork



Robert Brenneisen doubled charges for storage

can only achieve so much. Until containers can be evacuated more quickly by rail and road, major expansion remains problematical. A distant dream is the establishment of a unit train which would take containers from Mombasa to Kampala.

Providing a constant spur is the realisation that if they cannot improve, some trade will go elsewhere, geography notwithstanding. Dar es Salaam has already seen cheaper ports in South Africa and Mozambique steal much of the trade that in the apartheid era went via Tanzania to Zambia and Malawi.

Uganda, which brings more than 1m tonnes a year through Mombasa, has warned that it is willing to shift to the longer route through Tanzania if Dar es Salaam offers a better deal. And Dar es Salaam itself will face a growing challenge from Tanga, currently under refurbishment and ideally placed to serve the Kilimanjaro region. When it comes to ports, East Africa will be best served if competition, not co-operation, is the name of the game.

■ Power

Future looks brighter

Co-operation in the energy sector is one of the priorities laid down

When President Yoweri Museveni last month threatened to cut power supplies from Uganda to Kenya, he drew attention to a dispute which reveals both the problems and opportunities presented by regional co-operation in the energy sector.

The problem is that the region no longer produces sufficient power for its needs. The agreement which today angers Mr Museveni was drawn up in 1964, when output from the Owen Falls hydroelectric plant far exceeded demand not only in Uganda, but also in Kenya and Tanzania.

The Owen Falls scheme was itself the product of an earlier era of co-operation, when the East Africa Power and Lighting Corporation planned and provided for the region's collective requirements. Uganda complains it is tied to an anachronistic contract to supply energy to Kenya for only a third of what it now costs to produce. "I have asked [Kenya's president] Moi," Mr Museveni said, "to pay me according to the market rates."

Officials in Nairobi are conciliatory. "We are happy to talk about tariffs," responded the managing director of Kenya Power and Lighting Corporation (KPLC), Samuel Gichuru. "But the problem really is one of supply. We all face serious deficits at home, which means there is no incentive, even on a commercial basis, for Uganda to export power."

Across the region, supply has been falling despite increasing demand. Kenya's 50MW shortfall - around 8 per cent of requirements - has prompted the authorities into adopting an energy rationing programme. Load shedding and black-outs are also familiar in Uganda and Tanzania.

And as factories operate below capacity, industrial growth is also compromised. The now separate power authorities in the three countries acknowledge that low investment in infrastructure, poor maintenance and a lack of management transparency, especially over the past decade, are the main causes of shortage. In Kenya, donor support for the energy sector, frozen since the scale of corruption surrounding the Turkwel dam project became clear in 1990, is only now beginning to return.

Eight senior officials of the state-owned Tanzania Electricity Supply Company (Tanesco) were suspended in September in connection with the alleged misuse of funds.

Kenya has World Bank support for a billion dollar, long-term investment programme. Officials expect Japan's overseas development agency, the OECF, to pledge \$278.4m for the South Mireu 60MW hydroelectric plant and the 75MW Kipebu geothermal plant. Emergency measures to address the worst problems in Nairobi and on the coast are expected to be in place

before next year's elections. "It takes time to turn the situation around," Mr Gichuru admitted. "But the worst is over and things are already moving."

Uganda is looking to exploit better its hydroelectric potential. While contractual problems are delaying development of the Owen Falls plant, in January Kampala signed a \$450m agreement with Nile Independent Power Limited to build a 340MW facility near Jinja. Work on the project, which has attracted considerable US interest, is due to begin in 1998.

More innovative still is the \$300m, 150MW Songo Songo gas project offshore Tanzania, expected to come on stream in 1998. Agip and Amoco abandoned the coral island site in 1974 when they failed to discover oil. Nearly 30 years later, with the use of gas as a fuel far more fashionable, two Canadian companies, Ocelot and TransCanada, came in to construct and operate the project to tap and process the natural gas from Songo Songo, pump it underwater the 25km to the mainland and then the 210km north to the capital, Dar es Salaam. There it will feed into the Ubungu power plant, replacing imported liquid fuel to power five turbine-driven generators.

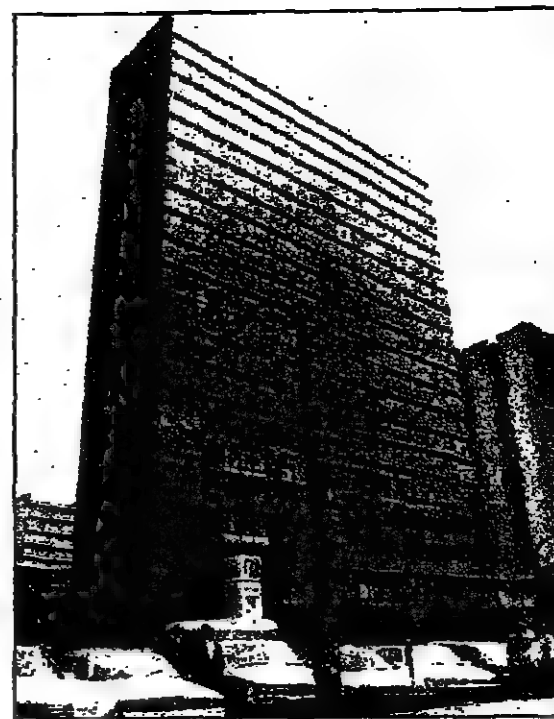
The financing of Songo Songo is also considered unique by the World Bank. Normally, its funds are channelled through parastatals. Here, they are going via the International Development Authority directly into an entirely private sector project. "If Tanzanians can make this work," the project's manager Jim McCordie believes, "it will do a lot to bring new investment into the country."

Mr McCordie expects Songo Songo to yield other benefits. "Once this first major investment is made," he explained, "it can easily be expanded with a much more modest outlay, and swifter time lag. There's enough gas for 30 years and we are confident there's more to be discovered. We could even extend the pipeline up from Dar es Salaam across the border to Mombasa."

There is little sign yet, however, of a genuine commitment to promote co-operation in the energy sector, one of the priorities laid down by the new East Africa Co-operation.

While Tanzania signed a memorandum of understanding with Kenya in 1992, earlier this year it began talks with Zambia over the possibility of linking into the southern African power grid. The private sector believes it may be the instrument by which a regional electricity market can once more be realised in East Africa. "A single grid makes so much economic sense," argued Christian Engsted, East Africa president of the Swiss-Swedish conglomerate, ABB, "but this is politically sensitive for the states concerned. We can be more efficient and concentrate on the commercial imperatives behind integration."

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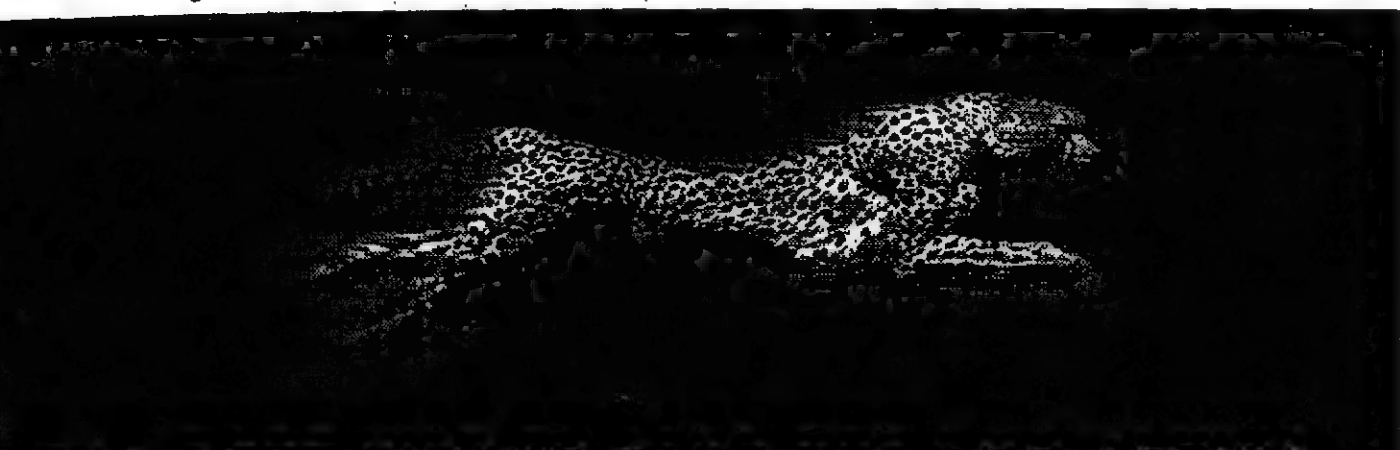
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6 EAST AFRICAN CO-OPERATION

Interview/guide

Interview: the executive secretary of the Secretariat of the Commission for East African Co-operation

United by a common policy

Ambassador Francis Muthaura explains how the new community will work

How does the new secretariat compare with the East African Community of old? The East African Community was really like a federal government: railways, ports, airlines, posts and telecommunications, customs, all came under the same administration. The headquarters and general services secretariat was meant to occupy this building, with one wing for each of the three countries. We will be sticking to one floor and our staff will not exceed 30. Member states are being strict: they want the secretariat to be small but highly professional.

What do you regard as the crucial factors that triggered the community's collapse? Authority was shared between three heads of state and after 1971 and the coup in Uganda, the leaders could not meet because Julius Nyerere refused to talk to Idi Amin. So from 1971, there was an accumulation of problems that couldn't be resolved. In the background was the cold war: external forces played a role in pushing the countries apart. Kenya was being encouraged to be more capitalist. Tanzania was being encouraged to be more socialist. Also, there definitely was a feeling that Kenya was doing better out of the arrangement. Uganda's economy had virtually collapsed. Tanzania's economy had been hit by socialism. Steps were taken to try to even things out - in 1987 it was agreed that many of the community's headquarters should be moved out of Nairobi, and remedial measures, such as transfer taxes on Kenyan goods, were introduced. But the feeling

persisted.

Why should co-operation work this time? At the moment, there's no ideological divide between the three countries. All three are following market-oriented policies; they have accepted the need for privatisation and liberalisation. We have a lot of expertise to build on - even Europe has not yet reached East Africa's intended level of co-operation. One of the things that caused problems the first time was joint ownership of enterprises. Governments are like people when it comes to property - they tend to get possessive. Now the aim is to create an enabling environment for business, including allowing power, road and telecommunications linkages, rather than joint enterprises. We are concentrating on harmonisation of policies, but the key actors will be private. The driving force this time will be individuals, not parastatals.

Isn't it possible that tension between individual presidents could re-emerge as a problem? Kenyan President Daniel arap Moi has repeatedly accused Uganda of plotting his downfall. You may be reading a lot into things that don't matter. You should look at the frequency with which these heads of state are meeting. All three are talking of moving to a federal status without reservations. There's no problem between Moi and Museveni. Kenya and Uganda as far as we are concerned.

The old community drew up remedial measures to compensate Uganda and Tanzania for trade imbalances. Is that going to be repeated? A free market is going to generate competition and already we are seeing a lot of cross-border investment. This is the future, rather than remedial measures. If



Francis Muthaura: renewed co-operation is inevitable

you have free movement of capital and goods and labour, these imbalances will be sorted out in the long term. Tanzania has strong advantages in some key sectors - power, minerals - and soon it will start pumping gas from Songha Songha. Uganda has advantages in the agricultural sector and energy potential. Once the linkages are established we are likely to see a total transformation in the balance of trade. We're commissioning a study on external tariffs which will tackle the idea of balanced benefits. But it's still too early to say.

What objectives top the secretariat's agenda at the moment? Our priority is policy harmonisation. Within that, dismantling of borders so we can allow free flow of people is a key issue. Already we've agreed a common travel document and Kenya and Uganda's railways have established a joint secretariat. Then there are fiscal and monetary policies, traffic laws, management of Lake Victoria, security measures. After harmonisation, we need to concentrate on developing the economic infrastructure. Telecommunications need to be modernised - the whole region has a power deficit. Finally, we need to promote trade and investment. We're drawing up a strategy paper which will set time frames in all

these sectors. We hope it will be approved by March next year.

What about expanding East African co-operation to other countries? We have many other regional organisations in this part of the world - COMESA, SADC etc. The point is not to have a repeat of the existing institutions. The East African region is unique - we're talking about three countries which for a long time were managed as one federal state, which more or less speak the same language, whose citizens went to the same schools. These countries feel they have to be united. Those kind of arrangements cannot include very many countries without losing their focus. We have had feelers from neighbouring countries but we want to be very cautious.

Looking back, do you regard the original community split-up as a disaster? The ministers who signed the dissolution agreement wept. It was the worst thing that ever happened to this region and from that day the economies started to decline. Since 1977 there's been a realisation that renewed co-operation is inevitable. The whole world is forming regional trading blocs. Either we do the same or we sink.

Michela Wrong

Tourism: by Michela Wrong and Antony Goldman

Co-operation not competition

To exploit its potential to the full, East Africa needs to be offered as a single destination

Fringed by mountains, a focal point for tarzan-draped Masai herders, Namanga is a pleasant but unremarkable town few tourists would choose to stop in.

Unfortunately, the thousands of visitors wanting to see the best wildlife East Africa has to offer have little choice in the matter. Since Namanga straddles the border separating Kenya's game parks from those of Tanzania, they are obliged to descend from their buses, go through two sets of customs and immigration, apply for a \$50 Tanzanian visa and board new buses on the other side of the frontier.

So much for regional co-operation. As an industry, tourism exemplifies the hurdles the East African community's collapse placed in the way of development, flying in the face of economic common sense.

National sensitivities play a part in the irksome set-up. Under-commercialised Tanzania, which has a range of attractions that rival the best that Kenya has to offer, presents the fact that 80 per cent of its visitors come via its more world-famous neighbour.

Foreign travel agencies pay a lump sum to a Kenyan tour operator, who will ensure most of the safari is spent in Kenya, using local facilities, leaving a Tanzanian counterpart thin pickings on a few days of bus rental and lodging.

"We have a much wider variety of parks, more products to offer and more wildlife than either of the two other East African countries," says Peter Mwenguo, marketing head of Tanzania's Tourist Board. "But Tanzania is not getting its fair share of the market."

So, while Nairobi tour operators, who manage to convince foreigners Mount Kilimanjaro and the Serengeti game park are actually in Kenya, may be keen to speed up border formalities, their resentful neighbours have far less to gain from streamlining.

The problem at Namanga exposes the

chasm between intention and practice. In theory, officials in the three countries accept that if East Africa is to exploit its tourism potential to the full, and fend off the threat presented by post-apartheid South Africa's entry into the market, selling the region as a single destination makes sense.

"The best way of dealing with the South African challenge is to synchronise our policies," says Mr Mwenguo. "We can beat them by offering tours that include the Stone Town of Zanzibar, climbing Mount Kilimanjaro, the mountain gorillas of Uganda and Kenya's parks."

His Ugandan counterpart, Ignatius Nakashiro, concurs. "I hope from now on we will learn to look at each other as allies, and not competitors." But in practice the nations' ambitious tourism master plans seem to have been drafted more in a spirit of competition than co-operation.

Kenya, where tourism is the largest single foreign exchange earner, clearly has most at stake. Last year's 20 per cent drop in arrivals, hitting the lowest level since 1985, sent shivers through the sector. The fall was blamed on a spate of reports of muggings and harassment, but the sour experience of staying in coastal hotels experiencing daily power cuts also played its part. Although numbers this year seem to have recovered and are expected to be in the 900,000 range, many believe capacity has outstripped demand and Kenya should abandon its target of 1m tourists by 2000.

In these circumstances, Kenya has the choice of following the path of narrow self-interest, jealously protecting its industry, or freshening up stale products with more, and longer, jaunts

into Tanzania or Uganda.

Zanzibar, Mount Kilimanjaro and a range of rarely-visited game parks, plus the fact that game hunting is legal, make Tanzania a unique destination. After the neglect of the socialist years, the country is only just beginning to tap its resources.

The number of visitors to Tanzania has already risen from 54,000 in 1993 to 84,000 last year. The aim, government officials say, is to learn from Kenya's mistakes, avoid the budget market and stick to an eventual 500,000 high-paying visitors.

The Tourist Corporation, the inefficient parastatal which managed hotels and tour agents, has been replaced by the Tourism Board, solely devoted to marketing. A \$150m, 10-year master plan foresees exploiting the historical Slave Route and the journeys of explorers such as Livingstone and Stanley.

At the moment the infrastructure is simply not up to the task. Until ambitious plans to improve Tanzania's roads, airports and telecommunications start bearing fruit, the only location likely to show dramatic growth is Zanzibar, already enjoying a hotel boom.

Worst-placed of the three countries is Uganda, where tourism is the fastest-growing section of the economy, rising 18 per cent a year to 155,000 visitors in 1995. But the figures are deceptive - off-

icials admit that 80 per cent of those visitors came on business or to see family. Only a handful were the high-paying tourists Uganda wants.

In addition, the rebel campaign in the north is in danger of scaring visitors away from a still dilapidated sector. And marketed on its own, Uganda's unique selling point - its population of endangered mountain gorillas - is far from viable.

By co-operating, the three nations could boost their share of world trade. Competing, they may all lose. "What we need to do is make it a competition between companies and not countries," says Brian Davies, Kenya Airways' chief executive and a member of Kenya's Tourist Board. "Leave the leading role to the private sector, rather than governments, and it will be easier to avoid awkward political sensitivities."



A Ugandan gorilla: waits me up when the tourists come



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Nairobi

As the capital of East Africa's industrial and financial giant, Nairobi makes Kampala look petite and Dar es Salaam parochial. But first impressions - of a busy, well-connected port, high-rise city centre and a well-educated business community - can lead to exaggerated expectations. Under the glossy facade lies a crumbling third world city. Kenya's infrastructure has not kept pace with urban expansion and the strain is showing. Main thoroughfares are pitted with enormous potholes, street lamps stopped working years ago and rubbish piles up uncollected. Power cuts are frequent, the telephone service incredibly patchy. Many of the numbers in the directory bear no relation to reality. Although the investment Promotion Centre is friendly, it can be slow and inefficient. Potential investors are probably better off approaching international accountants such as Price Waterhouse, KPMG or Coopers and Lybrand for advice. The Export Promotion Council has a more impressive reputation. Nairobi has something of a

Dar es Salaam

At first glance, the port city of Dar es Salaam seems to have seen the years of socialism with apparent ease. In the shiny new casinos, Tanzanians boast of losing money at the tables, while on the streets, prostitutes flash their breasts at night strollers. Stalls are crammed with imported goods. But the liberalisation is still in its infancy and the socialist legacy remains. The former President Julius Nyerere's ideology runs deep, tainting the form of bureaucratic bureaucracy and a general sense of torpor. Of the three regional capitals, this is the most frustrating to work in and institutions such as the Investment Promotion Centre, intended to ease the businessman's path, signify fail to fulfil their intended role. Meeting appointments is the first hurdle - as the crisscrossing telephone system is repaired, numbers are changing, but no

Kampala

Many travellers find Kampala the most pleasant of the three East African capitals in which to operate. Smaller and more manageable than Nairobi, it is largely free of Dar es Salaam's coastal sleepiness. Because it is the centre of Uganda's economic boom, there is a palpable buzz in the air. However, the visitor will find drawbacks to life in a country that survived years of brutal dictatorship and civil war. Credit cards are useless outside Kampala, telephoning 80km east of the capital often impossible and bureaucracy sometimes seems a throwback to a pre-colonial era. Several four-star hotels offer services similar to the Sheraton at lower prices. Alternatively, the Diplomat, outside the centre,

surplus of hotels, although prices remain relatively high notwithstanding. In the top range are the Hilton, Intercontinental, Savana, Norfolk and Grand Regency, all conveniently located. The quiet Fairview is a little further out. Cheaper are the very central Six Eighty and New Stanley, but both are dearer than their prices warrant. Despite a spate of negative publicity in the western press last year, security experts rate Nairobi as no more dangerous than many European capitals and far safer than Johannesburg. The rules are simple: keep your car doors locked and windows closed when driving, never give lifts, do not sport gold chains or expensive watches on the street, stick to registered taxis, avoid rough areas after dark and be alert. Thanks to its cosmopolitan population, the capital offers a huge range of cuisines. Excellent Indian food is served at the Hindi and Mimer. Firmly on the tourist circuit, the Kenya offers griffin, buffalo and ostrich while its sister restaurant, the Timburi, does venison. Alan Bobbe's has quality French food while the Trattoria offers Italian.

directory exists. The advantage is that Dar es Salaam is a small city, where many key offices are within walking distance of each other and taxis, which can be hired by the day for \$40 or less, are often unnecessary. It is worth starting early - many offices open at 8am and close at 4pm with a lunch break from 12.30-2pm. Renting a mobile telephone from one of the two rival firms may help. Local services remain limited. The only top-notch hotel, the new Sheraton, charges upwards of \$200 a night. The cheaper Agip and Sheraton have all the charm of Soviet youth hostels, but both are centrally located. The choice of restaurants is limited. The Alamo offers both Chinese and Indian cuisine. Smokeless does fish, La Taverna offers Italian and the Oyster Bay Hotel restaurant has excellent seafood. The restaurant on the top floor of the Kilimanjaro Hotel enjoys views across the port.

has a more intimate atmosphere and pleasing views. Telephone rates, once among the highest in the world, are reasonable, but hotels still charge astronomical rates. It may be more convenient to hire a mobile phone from Cotel on 230110. Taxis, available at hotels or on street corners, can be hired for the day for around \$50. Frustratingly, most travel agencies and car hire firms refuse credit cards. Shillings and foreign currency can be bought with Arner or Visa at Barclays Bank and money can be changed at banks, forex bureaux or licensed hotels and travel agents. Kampala has a choice for diners. The best are Indian - try the Maharajah near the Spoke Hotel - or Chinese - Fang Fang and Shanghai. The Swiss House, a little out of town, offers fondue and the Sheraton's Lion Bar serves Ugandan food.

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● Diplomatic missions: UK 335844, US 334141, Japan 332865-8, Germany 712527, France 339783/4, Tanzania 331104, Uganda 330801, South Africa 215818-8

● Hotels: Norfolk 335500, fax 336742; Hilton 334000, fax 339482; Inter-Continental 335550, fax 210675; Savana 725111, fax 725184; New Stanley 332333, fax 229388; Boulevard 227587, fax 334071; Nairobi Safari Club 224808, fax 223245.

● Business advice: East African Association 218317, Price Waterhouse 221244, Coopers and Lybrand 221482, Investment Promotion Centre 221401/2/3, Export Promotion Centre 228 534.

● Restaurants: Camivore 501775; see food: Tanzania 333555; French: Alan Bobbe 339955; Italian: Trattoria 340855; Kenyan: Sagari Hotel Equatorial 720593.

● Airlines: British Airways 334382, Kenya Airways 229291, KLM 332673, Alitalia 224365, American Airlines 242557, Lufthansa 226271, Swissair 250288/9, Air France 216954, Uganda Airlines 221354, Air Tanzania 332624, South African Airways 229693.

● Banks: Barclays Bank 713800, 332230, Kenya Commercial Bank 339441, National Bank of Kenya 226471, 335550, Stanbic 335585.

● Car hire: Alamo 331848, Avis 336794, Hertz 531322, Central Rental 222888.

Taxis usually know the city well, but can be expensive: Ks900 (E10) to/from airport; Ks3,500 (E40) half day hire.

● Advice and information: Finance Ministry 338111, Foreign Ministry 338111, Investment Promotion Centre of Kenya 330550, 226431, Parastatal Reform Committee 22127, Nairobi Stock Exchange 330892, Institute of Economic Affairs 568683, East Africa Association 218317, Export Promotion Council 228534, Kenya Port Authority (011) 312121, Kenya Tourist Board 823000 fax 823797.

TANZANIA

International code 255, Dar es Salaam 51.

● Diplomatic missions: UK 860105, UK 112950/4, Germany 117408, Japan 115227, 117393, South Africa 000618, 40685

● Hotels: Sheraton 113569/114161/113702, Agip 117075, Oyster Bay 88062/4, Kilimanjaro 113103/4, Karibu Hotel 88069/67761, Embassy Hotel 117087/2, Mobitel 44782, DHL 113170.

● Airlines: British Airways 113852, 115551, Kenya Airways 113338, Air Tanzania 110245/114688, Alliance 117044/7, Ethiopian Airlines 117408, Precision Air (local charters) 30800, Dar Es Salaam airport: 84421/843183.

● Car hire: See Express services to Zanzibar 37048.

● Car hire: Avis 30505/34562, Evergreen 0811 324538.

● Banks: Citibank 110395/113364, Standard Chartered 117346/52, Stanbic Bank 112195-8.

● Government offices: Ministry of Trade 2725/22775, Ministry of Minerals 31433, Bank of Tanzania 21291/9, Ministry of Finance 48657, 21271/9, Investment Promotion Centre 221401-4, fax 335553; Tourism Board 113145, 110812, 111244, fax 116420; Parastatal Reform Committee 115482, 33048/34298; Capital Markets and Securities Authority 115903.

● Zanzibar: International code 255 54.

● Hotels: Mazon's 33994/33082, Dhov Palace 33012, Baghani 33589/31816/30186, Tombo 33006, Shaghani 33688, Emerson's 32153, Swenari Plaza 30200.

● Advice and information: Tourism commission 33485, Investment Promotion Agency 31169/74, 33026, Free Economic Zone Authority 33988/33997.

UGANDA

International code 256, Kampala 41, Entebbe 42. (Kampala unless otherwise indicated)

● Diplomatic missions: UK 257054, US 256791, EU 233033, France 24120, Germany 256767, Kenya 287368, Tanzania 2567568.

● Hotels: Sheraton 244580, fax 256898; Equatorial 250780-9; Grand Imperial 250681-8, fax 250605; Nile 235000-9; Diplomat 267725; Entebbe - Lake Victoria (042) 20644/5.

● Airlines: British Airways 256895, Sabena 234201, Air France 242907, Alliance Airlines 236948, Uganda Airlines 232990, Kenya Airways 236948.

● Banks: Barclays 232654, Uganda Commercial Bank 234710, Standard Chartered 231473, Stanbic 230811.

● Car hire: Phoenix 239086, Avis 257286, Vacational Tours 234806; taxis can be hired for \$50 a day.

● Advice and information: Finance Ministry 234700; Trade Ministry 231104; Bank of Uganda 258441; Investment Promotion Agency 251653; Uganda Manufacturers Authority 221034; Uganda Export Promotion Council 259779; Commonwealth Development Corporation 236725; Development Finance Company of Uganda 236125; East Africa Foundation 244725; Uganda Tourist Board 242158.

Venezuela in Signs of wealth return to the pampa

By Raymond Collis
in Caracas

Venezuela has announced a \$6bn public tender for the development of 20 marginal oil fields with a potential total output of up to 450,000 barrels per day.

The move forms part of a plan to dramatically step up production by the year 2005 and is a further opening of the industry to private capital. Venezuela, already the western hemisphere's largest oil exporter, expects to produce in excess of 6bn b/d in a decade.

Of the 3,000 oil wells within the marginal fields, which make up 780,000 hectares, only 700 are currently operative, producing 164,000 b/d. Nearly half are in western Venezuela, especially around Lake Maracaibo.

The remaining fields are in the eastern provinces of Anzoategui and Monagas - some 350km south-east of Caracas. Petróleos de Venezuela (PDVSA), the state-owned oil company, expects new investment and technology to triple that output in the medium term.

"Many companies have shown interest in this bidding round before it was even announced," said Mr

Erwin Arrieta, energy and mines minister. The areas have been selected to attract a wide range of companies, including "the very large".

In a break with previous bidding rounds, five of the areas are reserved for Venezuelan operators. Mr Claus Graf, vice-president of PDVSA, says this will "provide important opportunities for Venezuelan petroleum and service companies". He added that foreign investors could associate with Venezuelan companies to bid for these reserved areas.

The investors' return in the 20-year profit-sharing contract will be calculated on the basis of each additional barrel of oil the winning bidder produces over current output. The Ministry of Energy and Mines expects \$6bn of investment capital during those 20 years.

PDVSA also presented a scheme which opens up the possibility for Venezuelans to acquire a share in specific projects in the industry. As much as 10 per cent of the required investment for each marginal area may be financed through oil investment funds, which issue instruments open to the public and traded on the Venezuelan stock exchange.

Argentine *estancieros*, owners of swathes of farming land on the fertile pampa, once had such a reputation for wealth that to be *riche comme un Argentin* was a common French expression of envy. At the outbreak of the first world war, Argentina - then the world's biggest exporter of corn and livestock, second in wheat and wool, and third in beef - had a per capita income equal to that of Germany.

As the century wore on, however, the interests of farmers were sacrificed to industrial expansion. Agriculture stagnated. Techniques fell behind those of Europe, the US and Australia. Inheritance laws subdivided land into small, uncompetitive parcels. By the 1990s, the sector accounted for only 6 per cent of gross domestic product.

But there are signs that farming may be stirring again. A more open economy, less punitive taxes and a better international environment for commodity exports are breathing life into the sector, which last year produced a record crop of 44.1m tonnes. Although many debt-burdened landowners continue to struggle, new investors with access to capital and modern farming methods are emerging.

Among them is Mr George Soros, the Hungarian-born financier, who is snapping up Argentine land. Through Cresud, an Argentine-listed company in which he bought a 47 per cent stake in 1994,



Cash cows: beef has perhaps the most potential

he has spent about \$60m on 330,000 hectares of arable and cattle-rearing land.

The strategy, explains Mr Alejandro Elzstein, a director at Cresud, is to break the vicious circle of old methods, low profits and exclusion from credit. By amalgamating small parcels of land and investing in technology, fertilisers and professional management, yields can be increased dramatically.

Mr Jesús Leguiza, sub-secretary of agriculture, says companies like Cresud are

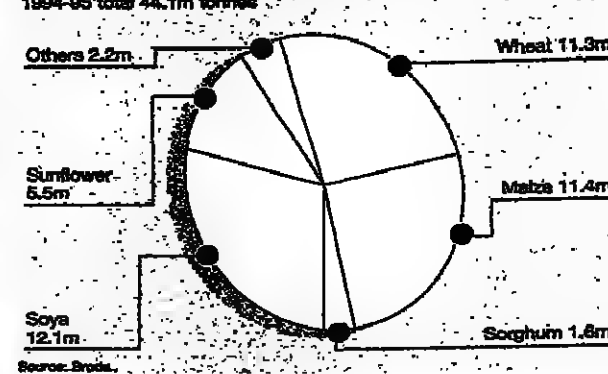
the result of profound sectoral changes. For decades, farmers were penalised by taxes on agricultural exports and by state commodity boards which fixed prices.

With incentives removed, the area sowed to wheat halved to 4.5m hectares between 1928 and 1992. State boards kept meat prices so low that farmers began to boycott cattle auctions: at one point in the 1940s beef was rationed.

Agriculture is no longer being squeezed, says Mr

Argentina crop production

1994-95 total 44.1m tonnes



Leguiza. The new impetus to invest has been reinforced by an overvalued peso and sharply reduced import tariffs, making the purchase of foreign machinery and specialised fertilisers cheaper.

"We are seeing the disappearance of amateur farmers and the arrival of professionals, who are making big investments in tractors, machinery and fertilisers," says Mr Luis Secco, an economist at the Broda consultancy. Domestic reforms have coincided with a brighter international picture. Prices are high, demand is rising, and competition is becoming fiercer.

Improved conditions are not only encouraging Argentina's traditional commodities of wheat, maize, soybeans and sunflower seeds. Non-crop crops such as cotton, rice and citrus fruits are also booming. The poor north-western province

of Tucumán has become one of the world's biggest exporters of lemons, while a record cotton crop is expected.

Beef is perhaps the biggest hope of all. In spite of the country's reputation for fine-quality meat, Argentina exports more fish than beef. That could change following its eradication of foot-and-mouth disease which has kept its fresh meat out of lucrative markets for decades. The US has agreed in principle to import 20,000 tonnes, which could unlock important markets in Japan and south-east Asia.

Mr Leguiza admits change is "very slow", but insists the sector is "back on its former path". The glory days of the 1920s may be a distant memory but Argentine *estancieros*, so long the object of pity, could again become worthy of envy.

David Pilling

Australia cuts wheat pool price estimate

By Nikkai Tait in Sydney

The Australian Wheat Board, which handles all export sales for the country's grain industry, yesterday dropped its estimate for the 1996-97 pool return by a further \$510 a tonne. This means the estimated return for the benchmark Australian Standard White grade is now \$5175 a tonne.

The move is the latest in a series of pool estimate reductions by the AWB, which have been caused by the prospect of bumper production in most wheat-growing countries and falling international prices. Over the past month alone, the AWB figure has dropped by \$250 a tonne.

Mr Ron Storey, the AWB general manager for merchandising, said the latest estimates were based "on the state of the international market at present and our estimation of the way the market will trade over the life of this pool - and that could be as long as 18 months".

He pointed out that, because of the size of the Australian crop, a significant portion would have to be marketed after July next year, when the AWB would be trading in direct competition with the Northern Hemisphere "new crop" harvest. The AWB recently raised its prediction of the size of the Australian harvest to around 21m tonnes.

Mr Storey added that if current estimates of pool returns were accurate, many growers would be operating at close to production cost. "They need above average yields to make a profit," he said.

The AWB said the estimated pool price for durum wheat had been increased by \$510 a tonne.

London cocoa futures fall to life-of-contract lows

MARKETS REPORT

By Alison Maitland, Susanna Voyle and Kenneth Gooding

Cocoa futures in London yesterday sank to new contract lows under the weight of physical cocoa coming on to the market. The March position dropped to \$835 a tonne, a life-of-contract low,

before rallying to \$940 and then closing down \$13 at \$926.

One analyst said sterling's appreciation against the French franc, in which cocoa from key producing countries such as Ivory Coast is denominated, had encouraged origin selling. Industry buying had in turn led to hedging on Liffe, which had pushed the market down in the past five days.

Coffee futures on Liffe were mixed, with January closing off \$5 at \$1,389 a tonne, while sugar for March closed up 50 cents at \$306 a tonne.

On the International Petroleum Exchange in London, crude oil prices were helped by a stronger US gasoline market and the news of a US strike against an Iraqi anti-aircraft site. In late trading

Brant Blend for December delivery was at \$22.50 a barrel, having closed on Friday at \$23.37.

Gas oil futures were hit on the perception on increasing supply and weak European demand. December gas oil finished \$1.75 lower at \$205.25.

Many bullion dealers and producers are expecting the gold price to fall to about US\$350 a troy

ounce next year, according to Mr Ted Arnold, analyst at Merrill Lynch.

"Very few market observers expect to see prices go above the \$380-\$385 level in coming months," he wrote in Merrill's Commodity Market Trends publication. Gold closed last night in London at \$379.05 an ounce, up \$1.40 from Friday's close.

London Metal Exchange traders

expect copper stocks - already at a six-year low of 125,700 tonnes - to expect a further drop of between 5,000 and 10,000 tonnes when the exchange reports stock levels today.

Three-month LME copper stood at \$1,572 a tonne yesterday in late trading, \$14 ahead of Friday but well below the high point for the day of \$1,585.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

Cash 3 months

Close 1389.5-99.5 1427-27.5

Previous 1389.5-99.5 1416-17.5

High/Low 1389.5-99.5 1430-17.5

AM Official 1389.5-99.5 1416-17.5

Kerb close 1424-24.5

Open int. 224,855

Total daily turnover 83,381

ALUMINIUM ALLOY (\$ per tonne)

Close 1248-43 1278-50

Previous 1248-43 1278-50

High/Low 1248-43 1280-50

AM Official 1242-43 1270-72

Kerb close 1242-43 1270-72

Open int. 6,296

Total daily turnover 1,335

LEAD (\$ per tonne)

Close 735-7 740-1

Previous 735-7 740-1

High/Low 735-7 740-1

AM Official 731-2 740-1

Kerb close 731-2 740-1

Open int. 36,684

Total daily turnover 9,472

NICKEL (\$ per tonne)

Close 7035-45 7145-50

Previous 7035-45 7145-50

High/Low 7035-45 7145-50

AM Official 6992-7180/7100

Kerb close 6992-7180/7100

Open int. 46,311

Total daily turnover 16,978

TIN (\$ per tonne)

Close 6835-45 6910-15

Previous 6835-45 6910-15

High/Low 6835-45 6910-15

AM Official 6820-25 6900-05

Kerb close 6820-25 6900-05

Open int. 15,213

Total daily turnover 1,354

ZINC, special high grade (\$ per tonne)

Close 1043-44 1058-57

Previous 1043-44 1058-57

High/Low 1043-44 1058-57

AM Official 1041-41 1054-55

Kerb close 1041-41 1054-55

Open int. 82,154

Total daily turnover 25,075

COPPER, grade A (\$ per tonne)

Close 2012.5-14.5 1971-72

Previous 2012.5-14.5 1971-72

High/Low 2012.5-14.5 1980-31

AM Official 2002-03 1954-57

Kerb close 2002-03 1954-57

Open int. 170,028

Total daily turnover 51,180

LME AM Official C/S ratio 1.8373

LME Closing C/S ratio 1.8465

Spot 1.6443 3 mths 1.6412 6 mths 1.6395 9 mths 1.6346

HIGH GRADE COPPER (COMEX)

Sett. Day's price change High Low Vol Int

Nov 94.20 +0.80 94.50 93.30 373 2,728

Dec 93.45 +0.80 93.70 91.50 5,440 22,887

Jan 91.85 +0.80 92.00 90.80 17 943

Mar 90.75 +0.75 91.00 89.80 665 11,623

Apr 90.25 +0.95 - - - 5 949

Total 6,822 86,284

PRECIOUS METALS

COMEX (Sett. Day's price change High Low Vol Int)

Gold (Troy oz) \$ price \$ equiv SFR equiv

Close 378.00-378.10 378.00-378.10

Open int. 378.00-378.10 231.24 480.09

Afternoon fix 378.70 230.82 479.85

Day's High 378.50-378.20 231.24 480.09

Day's Low 378.30-378.00 230.82 479.85

Previous close 377.80-378.10

Loco Linn Mean Gold Lending Rates (% US\$)

1 month 2.80 6 months 3.17

2 months 2.80 12 months 3.40

3 months 2.84

Silver Fix p/Troy oz US cts equiv.

Spot 24.05 481.40

1 month 238.05 480.25

6 months 302.20 482.85

1 year 311.20 480.60

Gold Collis 3 price \$ equiv.

Kruggerand 381.94 231-233

Maple Leaf 383.70-383.15

New Sovereign 88-92 84-86

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/Troy oz)

Sett. Day's price change High Low Vol Int

Nov 378.00 +0.4 378.00 378.00 38,829 30,229

Dec 378.00 +0.4 378.00 378.00 38,829 30,229

Jan 378.00 +0.4 378.00 378.00 38,829 30,229

Mar 378.00 +0.4 378.00 378.00 38,829 30,229

Apr 378.00 +0.4 378.00 378.00 38,829 30,229

Total 40,822 182,487

PLATINUM NYMEX (50 Troy oz; \$/Troy oz)

Sett. Day's price change High Low Vol Int

Nov 388.1 +0.4 388.8 384.7 1,488 18,778

Dec 388.1 +0.4 388.8 384.7 1,488 18,778

Jan 388.1 +0.4 388.8 384.7 1,488 18,778

Mar 388.1 +0.4 388.8 384.7 1,488 18,778

Apr 388.1 +0.4 388.8 384.7 1,488 18,778

Total 1,888 28,888

PALLADIUM NYMEX (100 Troy oz; \$/Troy oz)

Sett. Day's price change High Low Vol Int

Nov 117.50 +1.00 117.80 116.75 308 7,374

Dec 117.50 +1.00 117.80 116.75 308 7,374

Jan 117.50 +1.00 117.80 116.75 308 7,374

Mar 117.50 +1.00 117.80 116.75 308 7,374

Apr 117.50 +1.00 117.80 116.75 308 7,374

Total 25 135

SILVER COMEX (5,000 Troy oz; \$/Troy oz)

Sett. Day's price change High Low Vol Int

Nov 478.2 +1.2 478.2 478.2 104 100

Dec 478.2 +1.2 478.2 478.2 104 100

Jan 478.2 +1.2 478.2 478.2 104 100

Mar 478.2 +1.2 478.2 478.2 104 100

Apr 478.2 +1.2 478.2 478.2 104 100

Total 12,185 97,504

ENERGY

CRUDE OIL NYMEX (1,000 barrels; \$/barrel)

Sett. Day's price change High Low Vol Int

Nov 22.07 +0.04 22.14 22.00 38,824 18,151

Dec 22.07 +0.04 22.14 22.00 38,824 18,151

Jan 22.07 +0.04 22.14 22.00 38,824 18,151

Mar 22.07 +0.04 22.14 22.00 38,824 18,151

Apr 22.07 +0.04 22.14 22.00 38,824 18,151

Total 324 1,843

CRUDE OIL ICE (\$/barrel)

Sett. Day's price change High Low Vol Int

Nov 22.45 +0.05 22.70 22.41 12,325 64,263

Dec 22.45 +0.05 22.70 2

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

BANKS, MERCHANT

Barclays	10.00	10.00
Bank of America	10.00	10.00
Bank of Scotland	10.00	10.00
Bank of Ireland	10.00	10.00
Bank of London	10.00	10.00
Bank of Montreal	10.00	10.00
Bank of New York	10.00	10.00
Bank of Paris	10.00	10.00
Bank of Spain	10.00	10.00
Bank of Sweden	10.00	10.00
Bank of Tokyo	10.00	10.00
Bank of West	10.00	10.00
Bank of Yugoslavia	10.00	10.00
Bank of Zaire	10.00	10.00
Bank of Zimbabwe	10.00	10.00

BANKS, RETAIL

Bank of America	10.00	10.00
Bank of Scotland	10.00	10.00
Bank of Ireland	10.00	10.00
Bank of London	10.00	10.00
Bank of Montreal	10.00	10.00
Bank of New York	10.00	10.00
Bank of Paris	10.00	10.00
Bank of Spain	10.00	10.00
Bank of Sweden	10.00	10.00
Bank of Tokyo	10.00	10.00
Bank of West	10.00	10.00
Bank of Yugoslavia	10.00	10.00
Bank of Zaire	10.00	10.00
Bank of Zimbabwe	10.00	10.00

BREWERIES, PUBS & REST

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

BUILDING & CONSTRUCTION

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

BUILDING MATS. & MERCHANTS

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

CHEMICALS

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

CHEMICALS - Cont.

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

DISTRIBUTORS

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

DIVERSIFIED INDUSTRIALS

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

ELECTRICITY

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

ELECTRONIC & ELECTRICAL EQPT

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

ELECTRONIC & ELECTRICAL EQPT - Cont.

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

ENGINEERING

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
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Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

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Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

Interest will focus on Greece after the September 22 election as a stabilising factor in the area and as a springboard for investments in the Balkans and eastern Europe in general.

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FT Surveys

ENGINEERING - Cont.

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

ENGINEERING, VEHICLES

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

EXTRACTIVE INDUSTRIES

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

EXTRACTIVE INDUSTRIES - Cont.

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

FOOD PRODUCERS

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00
Stout	10.00	10.00
Tennent	10.00	10.00
Watson	10.00	10.00
Wolfsberg	10.00	10.00

FOOD PRODUCERS - Cont.

Adnams	10.00	10.00
Beck's	10.00	10.00
Carlsberg	10.00	10.00
Heineken	10.00	10.00
Interbrew	10.00	10.00
Kaiser	10.00	10.00
Miller	10.00	10.00
Orkla	10.00	10.00
Reck	10.00	10.00

LONDON STOCK EXCHANGE

British Telecom deal fails to boost market

MARKET REPORT

By Joel Kibazo

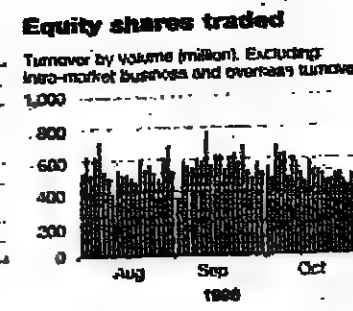
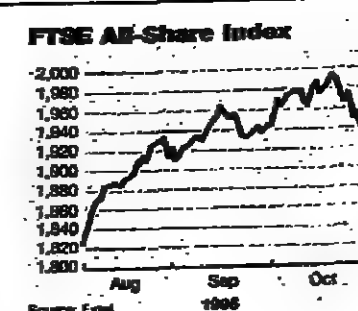
Not even news of the largest ever acquisition by a British company could breathe life into a UK market that remained gripped by interest rate worries and the strength of sterling following last week's surprise quarter of a percentage point rise in base rates.

British Telecommunications' £12bn deal with US long-distance carrier MCI, unveiled at the weekend, was initially the main talking point. The FTSE 100 index's firm opening at 3,955, some 7.6 points above Friday's close, led to early hopes that

euphoria surrounding the deal would provide the spur to shake off last week's gloom. The bulls of the BT deal piled into the stock which was said to account for a gain of just over 8 points on Footsie, helping to prevent an even larger slide in the leading index.

Telecoms was by far the best performing sector of the day. Analysts expect further consolidation in the sector following the BT deal and investors used the occasion to bet on issues such as Orange and Vodafone. But, as the day wore on, worries about interest rates and the strength of sterling returned to the fore. These concerns were

heightened by the publication of stronger than expected M0 money supply statistics and firm housing starts data. Analysts suggested the strength of M0 figures may be a sign of strong retail sales growth for October. This all served to increase investor anxiety and prompted a turnaround in the fortunes of both equities and bonds. Long-dated gilts closed a quarter of a point lower.



Indices and returns

FTSE 100	3955.0	+20.4
FTSE 250	4418.4	+10.8
FTSE 350	1982.4	+9.8
FTSE All-Share	1983.07	+8.48
10 yr Gilt yield	8.25	3.60

Best performing sectors

1 Telecommunications	+2.9
2 Utilities	+2.5
3 Breweries/Pubs & Rest	+0.4
4 Banks/Merchant	+0.3
5 Distributors	+0.1

BT soars after MCI merger

By Peter John, Lisa Wood, Harriet Goggin and Patrick Harwood

BT dominated business in the London stock market as analysts waxed lyrical following news of its £12bn deal with MCI. Shares in what looks set to become the UK's biggest company in market capitalisation terms jumped 30 before easing to end the day 22 higher at 375p. The move was accompanied by a takeover of 82m shares, the highest ever recorded since privatisation a decade ago.

In the words of one analyst, the MCI news "put the fantasy back in the sector" and other telecoms groups saw sharp early gains in the unqualified hope of more consolidation. Vodafone ended 5 up at 241 1/2p and Orange 1 1/2 up at 186 1/2p. Few analysts thought Cable & Wireless would attract a takeover after merger talks with BT failed six months ago and Cable dipped 6 to 48 1/2p.

BZW was expected to issue a buy note today and Goldman Sachs moved its recommendation to "buy" from "hold". CS First Boston upgraded on the basis of an estimate of \$2.5bn in synergies over the first five years and on expectation that the new company would realise double-digit earnings growth

and some of the highest potential returns on investment in the industry. Many analysts were putting a 400p a share price tag on the company - only what it was worth just over a year ago - arguing the utility label it had acquired was unwarranted. They said the market had valued the group as having 60 per cent of revenues governed by a regulatory price cap, but in a year's time only 15 per cent would be covered by a cap.

J Sainsbury fell 8 to 355 1/2p on news that it is to launch a new promotion aimed at winning market share back from Tesco. More than 300 items will attract extra points on the company's Reward loyalty card. The strategy of offering a few extra Reward points had been widely rumoured in the market, but analysts said the move was more aggressive than had been thought.

results

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to \$101m
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of 125p6d

FUTURES AND O

FTSE 100 INDEX FUTURES

	Open	Sett price
Dec	3975.0	3948.0
Nov	3975.0	3950.0

FTSE 250 INDEX FUTURES

Dec	4443.0
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FTSE 100 INDEX OPTION (L)

	3750	3800	3850
Nov	C	P	C
Dec	237	18	125
Jan	237	18	125
Feb	237	18	125
Mar	237	18	125
Apr	237	18	125
May	237	18	125
Jun	237	18	125
Jul	237	18	125
Aug	237	18	125
Sep	237	18	125
Oct	237	18	125
Nov	237	18	125
Dec	237	18	125

Call 6.275 pence 8.622

EURO STYLING FUTURES 100 IND

	1275	128	130	132
Nov	C	P	C	P
Dec	1265	21	128	30
Jan	1265	21	128	30
Feb	1265	21	128	30
Mar	1265	21	128	30
Apr	1265	21	128	30
May	1265	21	128	30
Jun	1265	21	128	30
Jul	1265	21	128	30
Aug	1265	21	128	30
Sep	1265	21	128	30
Oct	1265	21	128	30
Nov	1265	21	128	30
Dec	1265	21	128	30

Call 1.933 pence 2.821 Underlying price 1275

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE									
Austria (Nov 4 / Sch)									
ATX	221.35	221.35	221.35	221.35	221.35	221.35	221.35	221.35	221.35
Belgium (Nov 4 / Franc)									
BESE	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00
Denmark (Nov 4 / Krona)									
OMXC20	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
France (Nov 4 / Franc)									
CAC 40	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00
Germany (Nov 4 / Mark)									
DAX	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00
Greece (Nov 4 / Dracma)									
ATHEX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Ireland (Nov 4 / Punt)									
ISEQ	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Italy (Nov 4 / Lira)									
BIT	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Japan (Nov 4 / Yen)									
Nikkei 225	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Korea (Nov 4 / Won)									
KOSPI	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Netherlands (Nov 4 / Guilder)									
AEX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Poland (Nov 4 / Zloty)									
WSE	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Portugal (Nov 4 / Escudo)									
BVL	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Spain (Nov 4 / Ptas)									
IBEX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Sweden (Nov 4 / Krona)									
OMXC20	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Switzerland (Nov 4 / Franc)									
SIX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Taiwan (Nov 4 / New Taiwan Dollar)									
TSEI	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Thailand (Nov 4 / Baht)									
SET	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
UK (Nov 4 / Pound)									
FTSE 100	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00	2,200.00
US (Nov 4 / Dollar)									
Dow Jones	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00
Hong Kong (Nov 4 / Hong Kong Dollar)									
HSI	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Singapore (Nov 4 / Singapore Dollar)									
SEI	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
South Africa (Nov 4 / Rand)									
FTSE-JSE	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
New Zealand (Nov 4 / New Zealand Dollar)									
NZSE	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Australia (Nov 4 / Australian Dollar)									
ASX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00

From automotive
to automation,
Rockwell gets your
business moving.


Rockwell

INDICES									
Nov 4									
Argentina	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Australia	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Canada	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
France	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Germany	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Italy	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Japan	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Korea	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Netherlands	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Poland	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Portugal	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Spain	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Sweden	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Switzerland	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Taiwan	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Thailand	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
UK	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
US	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Hong Kong	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Singapore	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
South Africa	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
New Zealand	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Australia	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00

US INDICES									
Nov 4									
Dow Jones	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00	6,000.00
S&P 500	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
NASDAQ	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
NYSE	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
AMEX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
NYSE	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
AMEX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
NYSE	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
AMEX	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00

AUSTRIA (Nov 4 / Friday)									
1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
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1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
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1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
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1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00	1000.00
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4 pm close November 4



Race to Market.

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the computer system should be ours.

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 **HEWLETT
PACKARD**

Continued on next page

NASDAQ NATIONAL MARKET *4 pm close November 4*[illegible][illegible][illegible]

Chocoma	0.23	18.23	25.2	21	22	-	homeless	15	10	14.5	10.5	14	-	Phonoflex	21	147	161	154	16	-	Warner En	0.08	17	147	171	173	-	+	
Chocoma	0.50	16	17.68	19.5	10.5	19.5	Refined	1.53	27	11.89	10.2	10.5	10.5	ProyCom	11	90.90	111	104	104	+	Wernsch	37	2854	11	12	12	+	+	
Coyote	87	12.21	7.4	6.4	6.4	7.4								Picazari	0.48218	3	83	83	83	+	Wheeler	1.28	13	1482	141	41	41	+	+
Coyote	0.50	11	20.00	30.4	30.4	30.4								Flitz	27	3833	20.00	24.4	24.4	-1%	Winnam	0.09	12	1982	216	216	216	+	+
Coyote	14	14.58	10	8.4	8.4	8.4								Flitz	0.02	19	8.4	24.4	24.4	+	Winnam	0.22	17	288	104	104	104	+	+
Coyote	0.02	19	8.830	20.4	20.4	20.4								Flitz	0.40	35	221	88.4	88.4	+	Winnam	0.44	17	288	104	104	104	+	+
Coyote	14	14.58	10	8.4	8.4	8.4								Flitz	0.02	35	221	88.4	88.4	+	Winnam	0.44	17	288	104	104	104	+	+
Coyote	14	14.58	10	8.4	8.4	8.4								Flitz	0.02	35	221	88.4	88.4	+	Winnam	0.44	17	288	104	104	104	+	+
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Mergers lift activity in US markets

AMERICAS

US share prices were mixed in quiet midday trading in a session marked by several large merger announcements, but little macroeconomic or political news ahead of today's national elections, writes Lisa Branstetter in New York.

At 1 pm, the Dow Jones Industrial Average was 18.26 higher at 8,040.19 and the Standard & Poor's 500 2.23 better at 706.00, while the American Stock Exchange composite slipped 0.73 at 571.85 and the Nasdaq composite fell 0.42 at 1,321.56. NYSE volume was 212m shares.

Traders said that they expected activity to remain quiet until after the election.

The most active companies on both the NYSE and the Nasdaq were both the subject of takeover bids. On the NYSE, Eckerd, the drugstore chain, was the most actively traded share, jumping 4.4%, or 15 per cent, to \$33 on news that J.C. Penney, the fourth largest retailer in the US, had agreed to buy the company for about \$35 a share in cash and stock. Shares in Penney lost \$2.4, or 5 per cent, at \$50.4.

On the Nasdaq, MCI Communications was the most heavily traded share, although the company advanced only 1/4 to \$30.4, well below the implied value of BT's bid for the US telecoms group. American Depository Receipts of BT jumped 5.5%, or 10 per cent, to \$61.

Mexico City cautious

Caution prevailed in MEXICO CITY as investors awaited details of the 1997 budget proposals, and primary election attention and the US elections. The IPC index was 12.50 weaker by midsession at 3,433.32.

Bufile, the construction group, collected 70 centavos at 45.40 pesos on what analysts said was an improved outlook for the sector, which

News of the huge telecoms merger led to active trading elsewhere in the sector. Sprint, which had added 12 per cent on Friday as rumours of the takeover bid emerged, gave back 1.1%, or 4 per cent, at \$41. GTE, which tumbled on Friday, recovered 1.4%, or 3 per cent, at \$41.

CSX, the railroad company, jumped 1.1%, or 5 per cent, to \$44 on optimism that its purchase of Conrail would go through. CSX, which made a friendly bid for the company, revealed that it was in talks to sell some of Conrail's assets to Norfolk Southern, which had made a hostile bid for Conrail.

Shares in Norfolk rose 1.1% at \$50.4 and Conrail lost \$2.4 at \$53.

TORONTO was supported by a bullish billion price and firmer bonds which boosted shares of gold producers and banks. Analysts noted that bank shares had also benefited from some speculation that the Bank of Canada might cut its interest rates this week, this follows three reductions last month, as part of an effort to offset strength in the Canadian dollar.

The TSE 300 composite index was 10.59 higher by noon at 5,601.90 in volume of 45.5m shares. Nelvana fell 1.1% to \$28.8 after Golden Books Family Entertainment of the US said that it was withdrawing its offer to buy the Toronto-based animation company.

was hard hit by the 1996 recession. Dina, the bus and truck budget proposals, and the 14 centavos at \$4.92 on profit-taking after Friday's strong gains. SAO PAULO edged lower at midsession as the market continued to absorb measures, announced on Friday, to encourage foreign capital inflows. The Bovespa index eased 149 to 66,263.

Bourses quiet in advance of US elections

EUROPE

Investors seemed reluctant to take positions in advance of today's US elections. In FRANKFURT, a slight decline in the dollar and lower bond prices added to the generally subdued tone, although equities picked up with bonds towards the end of the afternoon to close with the Dax index 8.54 higher at an index of 2,678.73, after a low of 2,664.39.

Turnover rose from Friday's DM5.3bn, dampened by a holiday in some parts of Germany, to DM7.1bn. The day's corporate news, too, got a muted response by recent standards.

SGL Carbon, a growth favourite this year, put in nine-month pre-tax profits 34 per cent ahead. This did not keep pace with the carbon and graphite products group's strong first-half growth. However, the shares had already come back a good way, having risen from DM120 in January to DM191.50 a month ago. Last night they closed DM2 lower at DM189.50.

Elsewhere, the already out of favour Bankgesellschaft Berlin fell another DM1.25, or 4.8 per cent, to DM25 ahead of nine-month figures

FTSE Actuaries Share Indices

Nov 4		THE EUROPEAN SERIES									
Index	Change	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close	High	Low
FTSE 100	+1.23	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91
FTSE 200	+0.85	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88
FTSE 300	+0.52	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88

Nov 1		THE EUROPEAN SERIES									
Index	Change	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close	High	Low
FTSE 100	+1.23	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91	1746.91
FTSE 200	+0.85	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88
FTSE 300	+0.52	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88	1807.88

later this week. But Viagrose rose 1.2% to DM55.90 on news that its European telecoms partner British Telecom was to merge with MCI of the US.

MILAN called a halt to trading in two Fiat group subsidiaries as they hit a 10 per cent limit-up ceiling. Siza was 1.09 higher at L1.220 and Sorin Biomedica jumped 1.54 to L5.154 as they recovered from sharp losses suffered in recent weeks and amid renewed talk of restructuring.

Fiat itself gave up 1.57 at L3.937 as the Comit index edged 1.50 higher to 605.35 in weak turnover of around L350bn.

Mediaset, the television and advertising group, rose 1.42 to L7.270 on news of the \$200m merger between MCI and BT, which is a partner in the Italian-British Albacom joint venture.

Generali turned lower on news of a joint Sch6.5bn bid by its Austrian subsidiary and First Austrian Bank for Creditanstalt-Bankverein which was being privatised. Immediately before the news, Generali was trading L45 higher at L29.350, but the shares subsequently turned down and closed L165 weaker at L29.107.

A firmer telecoms sector featured a 1.44 rise in Tim to L3.172 after the chief executive said that full-year results would be in line with six-month figures which showed a 48 per cent rise in profits.

PARIS featured a sharp intraday slide in the milles-to-books conglomerate, Lagardere, which bottomed at FF135.50 after it emerged at the weekend that Mr Jean-Luc Lagardere, the group's head, was under formal investigation for alleged misuse of company assets. However, the shares clawed back most of this deficit, closing just FF1 lower at FF150.50 and the market did likewise, the CAC-40 index ending 1.64 ahead at 2,142.15 after a day's low of 2,123.69.

Turnover was FF3.2bn. In insurers, UAP rose FF1.80 to FF108 on renewed speculation of a bid from AXA - UAP, once again, denied the rumours.

ZURICH edged ahead with the advance capped by caution ahead of the US presidential and congressional elections. The SMI index finished 13.1 higher at 3,748.2. Sulzer gained SF12 to SF740 on news that it had sold its Sulzer Buelachguss foundry works to the management.

Swiss Re rose SF16 to SF17.375 after the EU cleared its purchase of M & G Re from Prudential of the UK. Traders reported some interest in cyclical issues following the Swiss franc's recent decline. Holderbank, the cement company, was SF14 higher at SF895 on the completion of a large sell order.

A SF100 rise in Ensa-Chemie to L4.990 was attributed to an option expiry. AMSTERDAM ended flat, the AEX index rising just 0.01 to 561.32. It was held back by a further fall of

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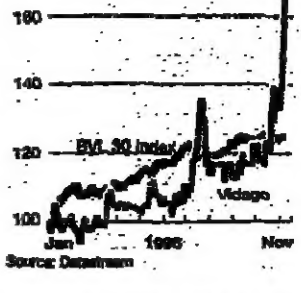
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Vidago

Share price & index rebound



FI4.30 in Royal Dutch, the oil group ending just off its day's lows at F127.20 after disappointing third-quarter results last week.

HELSINKI got a boost from its banking sector after Okobank filed a healthy recovery in profits for the first nine months of 1996. The shares rose FM1.90, or nearly 4 per cent higher, at FM53.90 and Merita, with figures due on Thursday, was helped to a rise of 40 penni at FM13.70.

The Hax index closed 5.72 higher at 2,204.57. UPM closed down FM1.10 at a five-month low of FM58.40 as more analysts downgraded the forestry sector, and the

share price & index rebound

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share price & index rebound

Ebullient Dhaka rockets another 7% higher

ASIA PACIFIC

The Dhaka market's historic and headline bull run showed no signs of abating this week, with feverish retail demand and a shortage of scrip pushing the index further into uncharted record territory, writes Mark Nicholson.

After leaps of 5.7 per cent and 6.1 per cent on Saturday and Sunday, the benchmark DSE index yesterday rose a further 235.58, or 7 per cent, to 3,587.68 in record turnover of Tk568.9m.

The index is now trading at almost three times the level of August, when the bull run began in earnest, and the broad market is trading at an unlikely 80 times current earnings.

The run, which began soon after the election of the Awami League government in the spring - bringing the promise of stability and economic reforms after two bitter years of political conflict, has prompted unprecedented sharemania in Dhaka.

Thousands of small investors now daily besiege the Dhaka Stock Exchange, which has been forced to bar entry to all but officials after physical cracks began appearing on the fourth and seventh floors because of the number of people visiting the building. "The entire street has been taken up entirely with kerb trading - the traffic has come to a standstill," said Mr Douglas

Glan of Peregrine Securities, the Asian investment house, yesterday.

Although the DSE last month introduced circuit-breakers to limit daily stock rises to 10 per cent and the central bank yesterday acted to curb brokers' borrowings against shares, most analysts still believe that the market has further records to break.

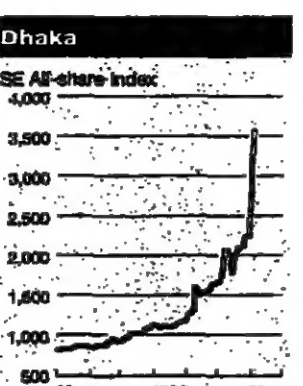
"The demand is still strong and there's a still a shortage of scrip," said one foreign broker. Nevertheless, Peregrine was yesterday recommending that investors should take profits, with prices at what they called "ridiculous levels".

Turnover last week averaged \$8.8m a day, compared with around \$800,000-\$1m in the first quarter. Market capitalisation last week rose 28 per cent to \$5.3bn as retail investors ploughed their savings into stocks.

At present levels, the Peregrine market index is showing a 360 per cent rise on the year for the top 25 stocks, with the index's worst performing company, Prime Textiles, up 65 per cent on the year to date. The best performer, Confidence Cement, was yesterday trading at 2,300 times this year's earnings, up 1,416 per cent on the year.

KARACHI's speculators focused on selected blue chips at the opening of a new account. A rise in synthetic fibre prices and some good corporate results helped matters further and the KSE 100 index closed 41.81, or 2.3 per cent, higher at 1,504.77.

This followed an 0.7 per cent gain on Sunday when sentiment was more mixed, traders then saying that a bitter political struggle could



share price & index rebound

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MARKETS IN PERSPECTIVE

	% change in local currency				% change sterling		% change US \$	
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996	Start of 1996	Start of 1996
Austria	+0.13	-1.10	+12.07	+9.64	-1.94	+3.53		
Belgium	-0.80	-0.53	+21.63	+11.52	-0.40	+5.06		
Denmark	-1.34	-0.24	+24.18	+19.38	+7.58	+13.58		
Finland	-1.85	-2.57	+2.24	+20.82	+9.48	+15.47		
France	-0.63	+0.45	+20.53	+17.89	+5.53	+12.35		
Germany	-0.49	+0.22	+22.87	+17.15	+4.84	+10.57		
Ireland	+0.47	+0.23	+27.56	+21.25	+17.80	+24.04		
Italy	-3.80	-5.30	+0.30	-1.82	-2.94	+3.56		
Netherlands	-2.07	-0.45	+28.87	+19.89	+6.87	+12.71		
Norway	+0.27	+0.95	+21.15	+16.89	+9.49	+15.47		
Spain	-2.27	+0.22	+32.22	+18.65	+12.77	+18.77		
Sweden	-1.27	+0.80	+26.87	+19.20	+25.72			
Switzerland	-0.53	-1.49	+19.90	+12.72	-3.28	+2.01		
UK	-1.61	-1.71	+12.12	+7.24	+7.24	+13.10		
EUROPE	-1.15	-0.94	+17.79	+12.80	+5.53	+11.30		
Australia	+0.22	+1.22	+13.04	+4.85	+5.51	+11.28		
Hong Kong	+0.73	+3.28	+24.03	+20.35	+14.11	+20.35		
Japan	+0.03	-2.11	+10.77	+1.49	-15.18	-10.54		
Malaysia	-0.73	+0.81	+25.49	+18.40	+12.75	+18.92		
New Zealand	+0.06	+3.19	+15.18	+0.91	+4.81	+14.88		
Singapore	-2.01	-3.54	+2.07	+7.29	-11.73	-8.90		
Canada	+1.12	+3.31	+28.00	+20.84	+16.73	+23.12		
USA	+0.45	+0.13	+19.60	+13.93	+14.52	+19.60		
Mexico	-0.48	-4.35	+36.68	+16.10	+8.45	+12.31		
South Africa	+0.40	-1.28	+20.25	+12.09	-17.34	-12.82		
WORLD INDEX	-0.08	-0.54	+17.43	+10.02	+1.86	+7.22		

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Signers, in parentheses show number of lines	US Dollar Index	Day's Change	Pointing	YTD	Local	Local	Local	Gross Div.	US Dollar Index	Pointing	YTD	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	Local	L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